ǀEW ISSUE BOOK-ENTRY ONLY

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and ourt decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for ederal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and all of the Bonds and the income therefrom are exempt om all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer, estate and certain anchise taxes. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal ıdividual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in alculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to he ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

OFFICIAL STATEMENT
State of Hawaii

$250,000,000
General Obligation Bonds
of 2002, Series CX

$319,290,000
General Obligation Refunding
Bonds of 2002, Series CY

)ated: February 15, 2002

MATURITY SCHEDULE - See Inside Cover Page

'he General Obligation Bonds of 2002, Series CX, and the General Obligation Refunding Bonds of 2002, Series CY (collectively, ıe "Bonds") will be issuable in fully registered form and when issued will be registered initially in the name of Cede & Co., as ominee of The Depository Trust Company ("DTC"), New York, New York. So long as DTC or its nominee is the registered owner f the Series 2002 Bonds, purchases of the Series 2002 Bonds will be made in book-entry form only, through brokers and dealers /ho are, or who act through, DTC participants; beneficial owners of the Series 2002 Bonds will not receive physical delivery of ond certificates; payment of the principal of and interest and any premium on the Series 2002 Bonds will be made directly to DTC r its nominee; and disbursement of such payments to DTC participants will be the responsibility of DTC and disbursement of such ayments to the beneficial owners will be the responsibility of DTC participants. Purchases of the Series 2002 Bonds may be made ı the denomination of $5,000 or any integral multiple thereof. See **"THE BONDS-Book-Entry System"** herein.

The Bonds bear interest payable on February 1 and August 1 of each year, commencing August 1, 2002. **The Bonds are ubject to redemption prior to maturity as and to the extent described herein.**

The Bonds are being issued for the purpose of financing, or reimbursing the State of Hawaii for, the Hawaiian Home Lands ettlement, and the costs of acquisition, construction, extension or improvement of various public improvement projects, among /hich are public buildings and facilities, elementary and secondary schools, community college and university facilities, public braries and parks and for other public purposes or for the purpose of refunding outstanding general obligation bonds of the State reviously issued for such purposes. See **"AUTHORITY AND PURPOSE"** and **"PLAN OF REFUNDING"** herein. The Bonds re general obligations of the State of Hawaii. The interest and principal payments on the Bonds are a first charge on the General und of the State of Hawaii, and the full faith and credit of the State of Hawaii are pledged to the punctual payment thereof.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued oncurrently with the delivery of the Bonds by Financial Security Assurance Inc.

FSA

This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the ntire Official Statement, including the Appendices hereto, to obtain information essential to the making of an informed investment ecision.

The Bonds are offered when, as and if issued and received by the Underwriters, and are subject to the approval of validity y Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State. Certain legal matters will be passed upon for the Underwriters y their counsel, McCorriston Miller Mukai MacKinnon LLP. It is expected that the Bonds in definitive form will be available for 'elivery through the facilities of DTC in New York, New York, on or about February 27, 2002.

Salomon Smith Barney

A.G. Edwards & Sons, Inc. **Lehman Brothers**

Merrill Lynch & Co. **Raymond James & Associates, Inc.**

)ated: February 13, 2002

State of Hawaii

$250,000,000 General Obligation Bonds of 2002, Series CX
Dated: February 15, 2002
Due: February 1, as shown below

Due (February 1)	Principal Amount	Interest Rate	Yield	Due (February 1)	Principal Amount	Interest Rate	Yield
2007	$10,850,000	3.600%	3.64%	2014	$12,550,000	5.500%	4.62%*
2008	11,240,000	3.800	3.87	2015	480,000	4.625	4.70
2009	11,665,000	4.000	4.06	2015	15,000,000	5.500	4.70*
2010	6,840,000	4.125	4.21	2016	700,000	4.750	4.76
2010	5,290,000	5.250	4.21	2016	15,625,000	5.500	4.76*
2011	6,095,000	4.250	4.31	2017	1,245,000	4.800	4.85
2011	6,595,000	5.250	4.31	2017	15,975,000	5.500	4.85*
2012	6,135,000	4.300	4.41	2018	18,155,000	5.000	5.02
2012	7,165,000	5.250	4.41	2019	19,065,000	5.000	5.08
2013	1,525,000	4.500	4.52	2020	20,015,000	5.100	5.13
2013	12,415,000	5.500	4.52*	2021	21,040,000	5.500	5.06*
2014	2,140,000	4.600	4.62	2022	22,195,000	5.125	5.17

(Plus accrued interest from February 15, 2001)

$319,290,000 General Obligation Refunding Bonds of 2002, Series CY
Dated: February 15, 2002
Due: February 1, as shown below

Due (February 1)	Principal Amount	Interest Rate	Yield	Due (February 1)	Principal Amount	Interest Rate	Yield
2007	$11,000,000	3.60%	3.64%	2011	$34,970,000	5.50%	4.31%
2007	17,785,000	5.25	3.64	2012	36,895,000	5.50	4.41
2008	30,115,000	5.25	3.87	2013	38,920,000	5.75	4.52
2009	10,695,000	4.00	4.06	2014	41,160,000	5.75	4.60
2009	21,000,000	5.25	4.06	2015	43,525,000	5.75	4.66
2010	33,225,000	5.25	4.21				

(Plus accrued interest from February 15, 2002)

*Priced to call date February 1, 2012.

STATE OF HAWAII

ADMINISTRATIVE OFFICIALS

Benjamin J. Cayetano
Governor

Mazie Hirono
Lieutenant Governor

Neal Miyahira
Director of Finance

Earl I. Anzai
Attorney General

Glenn M. Okimoto
Comptroller

BOND COUNSEL

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

(THIS PAGE INTENTIONALLY LEFT BLANK)

The information contained in this Official Statement has been obtained from the State of Hawaii and other sources deemed reliable. No guaranty is made, however, as to the accuracy or completeness of such information, and nothing contained herein is, or shall be relied upon as, a promise of the State or a promise or representation of the Underwriters. This Official Statement, which includes the cover page and appendices, does not constitute an offer to sell the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman or other person has been authorized to give any information or to make any representation, other than those contained in this Official Statement, in connection with the offering of the Bonds, and, if given or made, such information or representation must not be relied upon. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder at any time implies that the information contained herein is correct as of any time subsequent to its date.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "BOND INSURANCE" and APPENDIX G "SPECIMEN OF THE BOND INSURANCE POLICY" herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

TABLE OF CONTENTS

OFFICIAL STATEMENT

State of Hawaii

$250,000,000	**$319,290,000**
General Obligation Bonds of 2002, Series CX	**General Obligation Refunding Bonds of 2002, Series CY**

The purpose of this Official Statement, which includes the cover page and the inside cover page hereof and the appendices hereto, is to set forth information concerning the State of Hawaii (sometimes herein referred to as the "State") and its $250,000,000 aggregate principal amount of General Obligation Bonds of 2002, Series CX (the "Series CX Bonds"), and its $319,290,000 aggregate principal amount of General Obligation Refunding Bonds of 2002, Series CY (the "Series CY Bonds" and, together with the Series CX Bonds, the "Bonds"), in connection with the sale of the Bonds by the State of Hawaii.

AUTHORITY AND PURPOSE

The Bonds will be issued pursuant to the authority of and in full compliance with the provisions, restrictions and limitations of the Constitution and the laws of the State, including Part I of Chapter 39 of the Hawaii Revised Statutes, as amended ("HRS"), and pursuant to the authority of certain acts of the Legislature of the State and a Certificate of the Director of Finance of the State (the "Bond Issuance Certificate").

The principal proceeds from the sale of the Bonds will be used (i) in the case of the Series CX Bonds, to finance, or to reimburse the State for, certain expenditures for public purposes for which appropriations have been made in certain Acts of the State Legislature as set forth in Appendix B and which the Legislature may from time to time approve, including the Hawaiian Home Lands Settlement effected by Act 14, Session Laws of Hawaii 1995 (Special Session) and the costs of acquisition, construction, extension or improvement of various public improvement projects, among which are public buildings and facilities, elementary and secondary schools, community college and university facilities, public libraries and parks, certain other public purposes, including payment of $30 million during fiscal year 2002 in connection with the Hawaiian Home Lands Settlement, as authorized by Act 259, Session Laws of Hawaii 2001, (ii) in the case of the Series CY Bonds, to refund certain outstanding general obligation bonds of the State previously issued for such purposes, as described below under "PLAN OF REFUNDING" (the "Refunded Bonds"), in order to reduce the debt service payable on the State's general obligations bonds in certain years, and (iii) in each case, to pay costs of issuance of the applicable Bonds. See **"INFORMATION ABOUT INDEBTEDNESS—General Obligation Funded Debt of the State of Hawaii Authorized But Unissued"** in Part I of Appendix B.

PLAN OF REFUNDING

Upon delivery of the Bonds, the State and Bank of Hawaii, acting through its Pacific Century Trust division, as refunding trustee, (the "Trustee"), will enter into a Refunding Trust Agreement (the "Refunding Trust Agreement") to provide for the refunding of the following Refunded Bonds:

Schedule Of Bonds To Be Refunded

Refunded Bonds	Principal Amount	Stated Maturity	Redemption Date	Redemption Price
1988 Series BL	$4,059,208.35	12/01/03	12/01/03*	100%
1988 Series BL	4,065,429.07	12/01/04	12/01/04*	100
1992 Series BW	5,555,000	03/01/04	03/01/04*	100
1992 Series BW	5,555,000	03/01/05	03/01/05*	100
1992 Series BZ	12,500,000	10/01/03	10/01/03*	100
1992 Series BZ	12,500,000	10/01/04	10/01/04*	100
1993 Series CA	5,000,000	01/01/04	01/01/04*	100
1993 Series CE	7,235,000	06/01/04	06/01/03	100
1993 Series CE	7,235,000	06/01/05	06/01/03	100
1995 Series CJ	14,890,000	01/01/04	01/01/04*	100
1995 Series CJ	14,890,000	01/01/05	01/01/05*	100
1995 Series CK	5,555,000	09/01/03	09/01/03*	100
1995 Series CK	5,555,000	09/01/04	09/01/04*	100
1996 Series CL	5,555,000	03/01/04	03/01/04*	100
1996 Series CL	5,555,000	03/01/05	03/01/05*	100
1996 Series CM	8,335,000	12/01/03	12/01/03*	100
1996 Series CM	8,335,000	12/01/04	12/01/04*	100
1999 Series CT	11,060,000	09/01/03	09/01/03*	100
1999 Series CT	11,615,000	09/01/04	09/01/04*	100
1999 Series CT	18,910,000	09/01/13	09/01/09	101
1999 Series CT	20,025,000	09/01/14	09/01/09	101
1999 Series CT	21,215,000	09/01/15	09/01/09	101
2000 Series CU	5,545,000	10/01/04	10/01/04*	100
2000 Series CU	8,150,000	10/01/13	10/01/10	100
2000 Series CU	8,520,000	10/01/14	10/01/10	100
2000 Series CU	965,000	10/01/14	10/01/10	100
2000 Series CU	8,575,000	10/01/15	10/01/10	100
2000 Series CU	1,480,000	10/01/15	10/01/10	100
2000 Series CU	10,660,000	10/01/16	10/01/10	100
2000 Series CU	11,280,000	10/01/17	10/01/10	100
2000 Series CU	11,920,000	10/01/18	10/01/10	100
2000 Series CU	12,605,000	10/01/19	10/01/10	100
2000 Series CU	6,320,000	10/01/20	10/01/10	100
2000 Series CU	7,000,000	10/01/20	10/01/10	100

* Final maturity.

The Refunded Bonds to be redeemed will be irrevocably designated for redemption on the applicable dates therefor, and provisions will be made in the Refunding Trust Agreement for the giving of the notices of such redemption. The Refunded Bonds may not be redeemed other than as described above.

The Refunding Trust Agreement creates an irrevocable trust fund (the "Trust Fund") which is to be held by the Trustee, and the monies and securities held therein are to be applied to the payment of principal of and premium, if any, and interest on the Refunded Bonds. Immediately upon the issuance and delivery of the Series CY Bonds, the State will deposit, or cause to be deposited, with the Trustee, a portion of the proceeds derived from the sale of the Series CY Bonds. Monies deposited in the Trust Fund will be invested, at the direction of the State, in noncallable direct obligations of the United States (the "Trust Securities") which, together with cash held uninvested in the Trust Fund, will be sufficient, without reinvestment, and will be applied: (i) to pay the interest on each series of the Refunded Bonds due on and prior to the redemption date for the Refunded Bonds of such series; and (ii) to redeem the Refunded Bonds of each series on the redemption date at the redemption price thereof. The maturing principal of and interest on the Trust Securities and cash held in the Trust Fund, in the amounts needed to pay the principal of, interest on, and redemption premium with respect to, the Refunded Bonds, are pledged solely for the benefit of the holders of the Refunded Bonds. The Trust Securities will be purchased from the Treasury Department of the United States of America or in the open market, in either case at interest rates and prices which will cause the yield thereon, computed in accordance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended, not to exceed the applicable yield permitted by such provisions. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

THE BONDS

Details of the Bonds

The Bonds will be dated as of February 15, 2002, and will be issued in fully registered form without coupons, in the denomination of $5,000 or any integral multiple of $5,000. The Bonds will mature serially on February 1 of the years, and will bear interest at the rates (calculated on the basis of a 360-day year composed of twelve 30-day months), as shown on the inside cover page hereof, payable on February 1 and August 1 of each year, commencing August 1, 2002 (each an "interest payment date").

The Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of the Bonds will be made in book-entry form only (the "Book-Entry System"), in the principal amount of $5,000 or integral multiples thereof. Purchasers will not receive certificates representing their interests in the Bonds. Principal of and interest on the Bonds will be paid by the Registrar and Paying Agent for the Bonds (initially the Director of Finance of the State of Hawaii) to DTC, which will in turn remit such principal and interest to its Participants (as hereinafter defined), for subsequent distribution to the Beneficial Owners (as hereinafter defined) of the Bonds, as described herein. The Bonds may be transferred or exchanged in the manner described in the Bonds and as referenced in related proceedings of the State. See "**THE BONDS-Book-Entry System**" below. If the State ceases to use the Book-Entry System, the Director of Finance may select a different Registrar and Paying Agent to perform such payment and registration functions.

Optional Redemption of Bonds

The Series CY Bonds are not subject to redemption prior to maturity.

The Series CX Bonds maturing after February 1, 2012 will be subject to redemption at the option of the State at any time on and after February 1, 2012 in whole or in part, in any order of maturity selected by the State and by lot within a maturity, at a price equal to the principal amount thereof plus accrued interest to the redemption date.

In selecting such Bonds for redemption by lot, each Bond in a denomination of $5,000 and each $5,000 principal portion of a Bond in a denomination in excess of $5,000 will have equal probability of being selected for redemption. If any Bond is of a denomination in excess of $5,000, portions of the principal sum thereof in installments of $5,000 or any integral multiple thereof may be redeemed.

If any Bond (or any portion of the principal sum thereof) shall be redeemable and shall have been duly called for redemption and notice of such redemption shall have been duly given as provided in the Certificate of the Director of Finance, dated the sale date of the Bonds, and if on or before the date fixed for such redemption the State shall have duly made or provided for the payment of the principal sum thereof to be redeemed, the premium, if any, payable upon such redemption and the interest accrued on the principal sum to be redeemed to the date fixed for such redemption, then such Bond (or the portion of the principal sum thereof to be redeemed) shall become due and payable upon such date fixed for redemption and interest shall cease to accrue and become payable from and after the date fixed for such redemption on the principal sum thereof to be redeemed.

Notice of redemption will be mailed, not fewer than 30 days prior to the fixed date for redemption, to each Holder of a Bond in whose name such bond is registered upon the Bond Register as of the close of business on the forty-fifth day (whether or not a business day) next preceding the date fixed for redemption at such Holder's address as shown on such Bond Register. Failure of the Holder of a Bond to receive such notice by mail or any defect in such notice will not affect the sufficiency of the proceedings for the redemption of any Bond.

Book-Entry System

General. DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond certificate will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC and Its Participants. DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions in deposited securities, such as transfers and pledges, through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchase of Ownership Interests. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (for the purposes of the discussion under "**Book-Entry System**," a "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the Book-Entry System for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Notices and Other Communications. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and Interest Payments. Principal of and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the State, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of Book-Entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

Use of Certain Terms in Other Sections of the Official Statement. In reviewing this Official Statement it should be understood that while the Bonds are in the Book-Entry System, references in other Sections of this Official Statement to owners should be read to include the person for whom the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to owners by the State will be given only to DTC. DTC will forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

DTC and Book-Entry Information. Information concerning DTC and the Book-Entry System contained in this Official Statement has been obtained from DTC and other sources that the State and the Underwriters believe to be reliable, and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters or the State.

Neither the State nor the Underwriters will have any responsibility or obligation to Direct Participants, to Indirect Participants or to Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC, any Direct Participants or Indirect Participants, (ii) the payment by DTC, any Direct Participants or any Indirect Participants of any amount in respect of principal of or interest on the Bonds, (iii) any notice which is permitted or required to be given to owners (except such notice as is required to be given by the State to DTC), (iv) any consent given or other action taken by DTC as Owner of the Bonds or (v) any other event or purpose.

SECURITY FOR THE BONDS

Security Provisions

Under the Constitution and the laws of the State, the payments of principal of and interest on general obligation bonds of the State, including the Bonds, shall be a first charge on the General Fund of the State. Under said laws, the full faith and credit of the State are pledged to the punctual payment of the principal of and interest on general obligation bonds of the State, including the Bonds. At the beginning of each month, the Director of Finance of the State transfers from the General Fund into a special reserve account the amount of interest due and principal maturing during that month on the issued and outstanding general obligation bonds of the State, including the Bonds. The special reserve account is used to pay the debt service on such general obligation bonds, including the Bonds, and any balance in said account is held for that sole purpose.

Market Risk

There can be no assurance of continued marketability of the Bonds at the current price level. Various factors affect the market value of municipal securities, including the Bonds, over most of which the State has no control, such as general economic conditions, inflation, federal economic policies, interest rate trends and proposed or actual changes to the Internal Revenue Code of 1986. State finances, future State legislative actions and bond ratings may also affect the market value of the Bonds.

Sovereign Immunity

Under the doctrine of sovereign immunity, a state of the Union (including the State) cannot be sued by its own citizens. Under the United States Constitution, a state of the Union (including the State) cannot be sued by citizens of another state of the Union or by citizens or subjects of any foreign state. A state (including the State) may waive its immunity and consent to a suit against itself. However, such waiver and consent may subsequently be withdrawn by the state. Such immunity from and constitutional prohibition against suits against a state extend to officers of a state acting in their official capacity. Therefore, there can be no assurance that, in the event the State fails to make timely payment of principal of or interest on the Bonds, a right of action would lie against State officials to enforce such payment.

The State has never defaulted in the payment of either principal of or interest on any indebtedness of the State.

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as Appendix G to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At December 31, 2001, Financial Security's total policyholders' surplus and contingency reserves were approximately $1,593,569,000 and its total unearned premium reserve was approximately $810,898,000 in accordance with statutory accounting principles. At December 31, 2001, Financial Security's total shareholders' equity was approximately $1,698,672,000 and its total net unearned premium reserve was approximately $669,534,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

THE STATE OF HAWAII

Certain general information concerning the State of Hawaii is contained in Appendix A to this Official Statement. Selected financial information concerning the State of Hawaii, including information about the State's outstanding indebtedness and its revenue projections, is contained in Part I of Appendix B to this Official Statement. Part II of Appendix B contains the General Purpose Financial Statements and related General Fund schedules excerpted from the Comprehensive Annual Financial Report of the State of Hawaii for the State's fiscal year ended June 30, 2001. The State of Hawaii and other sources considered reliable have furnished the information set forth in Appendices A and B. The Underwriters and their counsel have not independently verified any of such information, nor have they made an independent determination of the financial position of the State. There can be no assumption that the information is indicative of the current financial position or future financial performance of the State.

PENDING LITIGATION

There is currently no pending litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds or in any other manner affecting the validity of the Bonds or the proceedings or authority pursuant to which they are to be sold and issued.

Office of Hawaiian Affairs and Ceded Lands

In 1898 the former Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the "Ceded Lands") back to the State of Hawaii (the "State") to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the Ceded Lands were to be held as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs ("OHA") to administer and manage the proceeds and income derived from a pro rata portion of the Ceded Lands for native Hawaiians.

In 1979, the State legislature (the "Legislature") adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the Ceded Lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of monies OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki*, the Legislature adopted Act 304, Session Laws of Hawaii 1990, which (i) defined "public land trust" and "revenue," (ii) specified that 20% of the "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State to jointly determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992, the State, through its departments and agencies, has been paying 20% of "revenues" to OHA on a quarterly basis.

In 1993, the Legislature enacted Act 35, Session Laws of Hawaii 1993, appropriating $136.5 million to pay the amount determined to be OHA's claims, with interest, for the period June 16, 1980 through June 30, 1991.

On January 14, 1994, OHA and its Board of Trustees (the "Plaintiffs") filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (1st Cir.)), claiming that the amount paid to OHA was inadequate and alleging that the State had failed to properly account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs sought an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of monies it receives from (i) the Department of Transportation Airports Division's in-bound duty free airport concession (including receipts from the concessionaire's off-airport sales operations), (ii) the State-owned and operated Hilo Hospital, (iii) the State's public rental housing projects and affordable housing developments, and (iv) interest income, including investment earnings (collectively, the "Sources"). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the circuit court filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the circuit court filed an order granting Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the monies it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting Plaintiffs' four partial summary judgments was granted and all proceedings in the suit were stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court ruled that Act 304 was effectively repealed by its own terms, and that there was no juridically manageable standard by which to determine whether OHA was entitled to the revenues it sought from the Sources because the repeal of Act 304 revived the law which the court in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the Ceded Lands. *OHA v. State of Hawaii*, 96 Haw. 388 (2001). The Supreme Court dismissed the case for lack of justiciability noting that it was up to the Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the Ceded Lands under the State Constitution.

It is unlikely that OHA will abandon its claims for a portion of the revenues from the Sources and other ceded lands that it made in this case, but the State is currently unable to predict with reasonable certainty the magnitude of its potential liability for such claims, if any. Resolution of all of OHA's claims could have a material adverse effect on the State's financial condition.

In a second lawsuit, OHA filed a complaint for declaratory and injunctive relief on November 4, 1994 (*OHA v. Housing Finance and Development Corporation et al.*, Civil No. 94-4207-11 (1st Cir.)) to enjoin the State from alienating any Ceded Lands or, alternatively, to preclude the extinguishing of any rights native Hawaiians may have in Ceded Lands that may be alienated.

On April 2, 1996, the First Circuit Court, State of Hawaii, denied the Defendants' motion for partial summary judgment which sought a ruling from the court that the State has the authority to alienate Ceded Lands. On March 12, 1998, the Defendants filed another motion (Motion to Dismiss Certain Counts and for Partial Summary Judgment) which the court heard on July 9, 1998 and denied on August 27, 1998. On September 3, 1998, the Defendants filed a Motion for Leave to File Interlocutory Appeal from Order Denying Motion. This motion was heard on September 24, 1998, and was denied on October 7, 1998. Trial for this concluded on December 4, 2001. The Court has taken the case under advisement.

In a third lawsuit, OHA filed suit against the Hawaii Housing Authority (the "HHA"), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (1st Cir.)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter

201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA v. State of Hawaii*, Civil No. 94-0205-01 (1st Cir.). The repeal and revival of the pre-*Yamasaki* law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA v. State of Hawaii* should also require dismissal of the claims OHA makes in *OHA v. HHA*.

Department of Education and Department of Health

Felix v. Cayetano, Civ. No. 93-00367 (U.S. Dist. Ct. Hawaii). This case involves the State's responsibility under federal law to provide mental health services as a related service to children and adolescents who need such services to benefit from special education. After the U.S. District Court granted partial summary judgment as to liability in the Plaintiff's favor, the parties entered into a consent decree which allowed the State to plan and implement a new system of care. Under the consent decree and the supervision of the federal district court, the State has been implementing a plan to improve the provision of such services. Because of the failure of the State to timely complete the implementation plan approved by the Court, the State was held in contempt of court and the consent decree was extended to June 30, 2001 for completion of infrastructure to support the delivery of services and December 31, 2001 for substantial compliance with the consent decree.

The State avoided the Court's imposition of a federal court-appointed receiver by meeting the Court's revised benchmarks and conditions which the State was ordered to satisfy. At a hearing held on November 30, 2001, the Court determined that the State had made significant progress in meeting the terms of the consent decree and, therefore, a federal receiver was not necessary. The State's final review of its compliance with the consent decree will occur after March 30, 2002.

Department of Hawaiian Home Lands

In 1991, the Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 (the "HHCA") to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

The process was a three-step process which (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the "Panel") to provide the Legislature with non-binding findings and advisory opinions for each claim; (2) provided for the Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the Legislature deemed appropriate by October 1, 1999; and (3) allowed claimants to bring de novo civil actions by December 31, 1999 if they were not satisfied with the Panel's findings and advisory opinions, or the Legislature's response to the Panel's recommendations.

Legislation to allow the Panel and the Legislature until September 30, 2000 to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the Legislature, but vetoed by the Governor in the 1999 regular session, and the Panel sunseted on December 31, 1999. As of September 30, 1999, claims from 1,376 claimants had not been reviewed by the Panel, and all but the claims of two claimants had not been acted upon by the Legislature. In 1997, the Legislature declared its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it.

On September 30, 1999, three claimants filed a suit for declaratory and injunctive relief in the U.S. District Court for the District of Hawaii to secure an injunction prohibiting the enforcement of the notice and suit filing deadlines specified in HRS Ch. 674. *Kalima et al. v. Cayetano,* Civil No. 99-00671HG/LEK. A motion for preliminary injunction was heard on November 15, 1999 and denied as moot on September 28, 2000. By stipulation filed on November 13, 2000, the action was dismissed without prejudice.

On December 29, 1999, the same three claimants filed a class action lawsuit in the state circuit court for declaratory and injunctive relief and for general, special and punitive damages for breach of trust or fiduciary duty under HRS Chs. 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Ch. 661. *Kalima et al; v. State of Hawaii et al.*, Civil No. 99-4771-12VSM (1st Cir.) ("*Kalima I*"). Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. *Aguiar v. State of Hawaii, et al.*, Civil No. 99-612 (3rd Cir.); *Silva v. State of Hawaii, et al.*, Civil No. 99-4775-12 (1st Cir.); *Wilhelm v. State of Hawaii, et al.*, Civil No. 99-4774-12 (1st Cir.); *Williamson v. State of Hawaii, et al.*, Civil No. 99-4773-12 (1st Cir.); *Hanohano v. State of Hawaii, et al.*, Civil No. 99-4772-12 (1st Cir.). The plaintiffs in these other actions have stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits.

On March 30, 2000, the three named-plaintiffs in *Kalima I* filed a second class action lawsuit in the state circuit court for declaratory and injunctive relief, and for damages under HRS Ch. 673, for the Panel's and Legislature's alleged failure to remedy their breach of trust claims under HRS Ch. 674. *Kalima et al; v State of Hawaii, et al.*; Civil No, 00-1-1041-03 (1st Cir.) ("*Kalima II*"). All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II.*

On August 30, 2000, the circuit court entered an order in *Kalima I* granting plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denying the State's motion for judgment on the pleadings. Essentially, the circuit court rejected the sovereign immunity, lack of subject matter jurisdiction, and no-cause of action defenses the State asserted, and ruled that the plaintiffs and those similarly situated to them (by an order filed on August 29, 2000, a class was so certified for purposes of Count I) could pursue their claims for damages and other relief under HRS Chs. 674 and 661.

The circuit court allowed the State to take an interlocutory appeal from the August 30, 2000 order to the Hawaii Supreme Court, and entered an order staying all proceedings in *Kalima I* pending the Supreme Court's disposition of the appeal. By an order entered on September 20, 2001, however, that appeal was dismissed by the Supreme Court for lack of appellate jurisdiction. Since then, the State has secured a certification of finality for the August 30, 2000 order from the circuit court, and filed another notice of appeal of the order so that the questions of law the circuit court decided can be reviewed by the Supreme Court prior to trial. All proceedings in *Kalima I* in the circuit court remained stayed, and no trial date has been set in either *Kalima I* or any of the other individual claims cases.

Other

The State has also been named as a defendant in numerous other lawsuits and claims arising in the normal course of operations.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, and interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel is also of the opinion that the Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer and estate taxes; provided that no opinion is expressed with respect to the franchise tax imposed on banks and other financial institutions. A complete copy of the proposed opinion of Bond Counsel is set forth in Appendix F hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The State has covenanted to comply with certain restrictions designed to insure that the interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in the interest on the Bonds being included in gross income for federal income tax purposes, possibly from the original date of issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions are taken or omitted or events occur or come to their attention after the date of issuance of the Bonds which may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation or amendments to the Internal Revenue Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest, on the Bonds. Prospective Owners of the Bonds are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

The amount (if any) by which the amount (excluding amounts stated to be interest and payable at least annually over the term of the Bonds) to be paid at maturity of any maturity of the Bonds exceeds the issue price of such Bonds constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income and State of Hawaii tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issue or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a purchaser's basis in a Premium Bond, and under Treasury Regulations the amount of tax-exempt interest received, will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Certain requirements and procedures contained or referenced to in the Bond Issuance Certificate, the Tax Certificate delivered at the time of issuance of the Bonds, and other relevant documents may be changed, and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds, may otherwise affect a Bond Owner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon each Bond Owner's particular tax status and the Bond Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other consequences.

APPROVAL OF LEGAL PROCEEDINGS

Certain legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State. Copies of the approving opinion of Bond Counsel will be available at the time of delivery of the Bonds. The form of opinion Bond Counsel proposes to render is set forth in Appendix F hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by their counsel, McCorriston Miller Mukai MacKinnon LLP.

RATINGS

Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., are expected to rate the Bonds AAA, Aaa, and AAA respectively, with the understanding that upon delivery of the Bonds, the Policy insuring payment of the principal of and interest on the Bonds will be issued by Financial Security. Such ratings reflect only the respective views of such rating agencies, and any explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. There is no assurance that any of such ratings will be retained for any given period of time or that the same will not be revised downward, suspended or withdrawn entirely by the rating agency furnishing the same if, in its judgment, circumstances so warrant. The State undertakes no responsibility to oppose any such downward revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of such ratings, or any of them, may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Underwriters listed on the cover have agreed to purchase the Bonds at an aggregate purchase price equal to the principal amount of the Bonds, plus an original issue premium of $32,997,364.70, less original issue discount of $707,634.15, less an aggregate underwriting fee of $1,755,039.80, plus accrued interest. The Underwriters will be obligated to purchase all of the Bonds if any are purchased.

The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public. The Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment trusts) at prices lower than the public offering prices appearing on the inside cover, and the public offering prices may be changed from time to time.

CONTINUING DISCLOSURE

The State will enter into a Continuing Disclosure Certificate (the "Disclosure Certificate") in the form set forth in Appendix E hereto, for the benefit of the holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the State to certain information repositories annually and to provide notice to the Municipal Securities Rulemaking Board of the occurrence of certain enumerated events, if material, pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 (17 C.F.R. § 240. 15c2-12) (the "Rule"). See "**Appendix E—Form of Continuing Disclosure Certificate.**"

The State has not failed to comply with any of its previous continuing disclosure certificates under the Rule. A failure by the State to comply with the Disclosure Certificate will not constitute an event of default of the Bonds, although any Bondholder or any Beneficial Owner may bring action to compel the State to comply with its obligations under the Disclosure Certificate. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

VERIFICATION

Grant Thornton LLP (the "Verification Agent") will verify from the information provided by Salomon Smith Barney the mathematical accuracy as of the date of issuance of the Bonds of (1) the computations contained in the schedules provided by Salomon to determine that the anticipated receipts from the securities and cash deposits listed in such schedules to be held in escrow will be sufficient to pay when due the principal, interest and call premium payment requirements of the Refunded Obligations, and (2) the computations of yield on both the Trust Securities and the Bonds contained in the schedules provided to Bond Counsel for use in its determination that the interest on the Bonds is excluded from gross income for federal income tax purposes. The Verification Agent will express no opinion on the reasonableness of the assumptions provided to them, the likelihood that the principal of and interest on the Bonds will be paid as described in the schedules provided to them, or the exclusion of the interest on the Bonds from gross income for federal income tax purposes.

FINANCIAL STATEMENTS

The General Purpose Financial Statements and additional information as of and for the year ended June 30, 2001, included as Part II of Appendix B, have been audited by KPMG, independent auditors, as stated in their report appearing therein, which is based in part on the reports of other auditors. The State has neither requested nor obtained the consent of KPMG to include their report, and such firm has performed no procedures subsequent to rendering their report. There can be no assurance that the information is indicative of the current financial position or future financial performance of the State.

MISCELLANEOUS

To the extent any statements made in this Official Statement involve matters of opinion or of estimates, whether or not so expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holders of any of the Bonds. The Department of Budget and Finance, State of Hawaii has prepared this Official Statement and has duly authorized the delivery hereof.

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX A

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX A

GENERAL INFORMATION ABOUT THE STATE OF HAWAII

The statistical information presented by this Appendix A is the most current information available to the State. Because such information becomes available at different times, the dates of such information, as presented herein, are not the same.

INTRODUCTION

General

The State was admitted into the Union on August 21, 1959, as the fiftieth state. It is an archipelago of eight major islands, seven of which are inhabited, plus 124 named islets, totaling 6,425 square miles in land area, located in the Pacific Ocean in the Northern Hemisphere, mostly below the Tropic of Cancer, about 2,400 statute miles from San Francisco. The State is slightly larger than the combined area of the States of Connecticut and Rhode Island and ranks forty-seventh of the fifty states in land area, being also larger in area than the State of Delaware. The island of Hawaii is the largest island, with 4,028 square miles in area. The other inhabited islands in the order of size are Maui, Oahu, Kauai, Molokai, Lanai and Niihau. According to the U.S. Census, the total population of the State was 422,770 in 1940, 499,794 in 1950, 632,772 in 1960, 769,913 in 1970, 964,691 in 1980, 1,115,274 in 1990, and 1,211,537 in 2000, making the State the forty-second most populous state in the Union as of 2000. The City and County of Honolulu consists of the island of Oahu (plus some minor islets) with a land area of 599.8 square miles. The capital of the State and the principal port are located on Oahu. According to the 2000 U.S. Census, about 72.3% of the population of the State lives on Oahu. Hawaii's population shows greater ethnic diversity than other states because it is descended from immigrants from the Far East as well as from Europe and the mainland United States. The 2000 U.S. Census indicated that about 41.6% of the State's population is of Asian descent and about 24.3% of the State's population is Caucasian. Native Hawaiians and other Pacific Islanders constitute 9.4% of the population. The balance consists of other races, such as African Americans and American Indians.

State Government

The Constitution of the State provides for three separate branches of government: the legislative, the executive and the judicial. The legislative power is vested in a bicameral Legislature consisting of a Senate of twenty-five members elected for four-year terms and a House of Representatives of fifty-one members elected for two-year terms. The Legislature convenes annually. The executive power is vested in a Governor elected for a four-year term. In the event of the absence of the Governor from the State, or his inability to exercise and discharge the powers and duties of his office, the Lieutenant Governor, also elected for a four-year term, serves as the chief executive. Under the Constitution, the judicial power is vested in a Supreme Court, one intermediate appellate court, circuit courts, district courts, and such other courts as the Legislature may from time to time establish. Pursuant to statute, the Legislature has established four circuit courts, four district courts and an intermediate appellate court. The executive and administrative offices are limited to not more than twenty principal departments under the supervision of the Governor. The executive functions have in fact been grouped into eighteen departments. The heads of the departments are appointed by the Governor with the advice and consent of the Senate and hold office for a term to expire with the term of the Governor. The Department of Budget and Finance is one of the principal departments permitted by the Constitution of the State, with the head of said department being designated as the Director of Finance. Under the general direction of the Governor, the Department of Budget and Finance administers the State's proposed six-year program and financial plan, the State budget, and financial management programs of the State.

The Counties and Their Relationship to the State

There are four counties in the State, being the City and County of Honolulu, the County of Maui, the County of Hawaii and the County of Kauai, and one quasi-county, Kalawao. Each of the counties has a separate charter for its government, each of which provides for an elected mayor and an elected council. The mayor is the chief executive and the council is the legislative body. *There are no independent or separate cities or other* *municipalities, school districts or townships.* The State government of Hawaii has total responsibility for many functions which in most other parts of the United States are performed by or shared by local governments. For example, the State pays all costs in connection with the public school system, libraries, public welfare, and judiciary. The greatest expenditures by the State in past years have been in the areas of education and public welfare. The counties' major areas of responsibility and expenditure are in police and fire protection, waste disposal, water and sewer facilities, and secondary streets and highways.

DEBT STRUCTURE

Types of Bonds Authorized by the Constitution

The Constitution of the State empowers the Legislature to authorize the issuance of four types of bonds (defined by the Constitution as bonds, notes and other instruments of indebtedness): general obligation bonds (defined by the Constitution as all bonds for the payment of the principal and interest for which the full faith and credit of the State or a political subdivision are pledged and, unless otherwise indicated, including reimbursable general obligation bonds hereinafter defined); bonds issued under special improvement statutes; revenue bonds (defined by the Constitution as all bonds payable from revenues, or user taxes, or any combination of both, of a public undertaking, improvement, system or loan program and any loan made thereunder and secured as may be provided by law); and special purpose revenue bonds (defined by the Constitution as all bonds payable from rental or other payments made to an issuer by a person pursuant to contract and secured as may be provided by law). Under the Constitution, special purpose revenue bonds shall only be authorized or issued to finance facilities of or for, or to loan the proceeds of such bonds to assist, manufacturing, processing or industrial enterprises, utilities serving the general public, health care facilities provided to the general public by not-for-profit corporations, early childhood education and care facilities provided to the general public by not-for-profit corporations, or low and moderate income government housing programs. All bonds other than special purpose revenue bonds must be authorized by a majority vote of the members to which each house of the Legislature is entitled. Special purpose revenue bonds must be authorized by two-thirds vote of the members to which each house of the Legislature is entitled.

Outstanding Indebtedness and Debt Limit

The Constitution provides that determinations of the total outstanding indebtedness of the State and the exclusions therefrom shall be made annually and certified by law or as prescribed by law. General obligation bonds may be issued by the State provided that such bonds at the time of issuance would not cause the total amount of principal and interest payable in the current or any future fiscal year, whichever is higher, on such bonds and on all outstanding general obligation bonds in the current or any future fiscal year, whichever is higher, to exceed a sum equal to 18.5% of the average of the General Fund revenues of the State in the three fiscal years immediately preceding such issuance. For the purposes of such determination, General Fund revenues of the State do not include monies received as grants from the federal government and receipts in reimbursement of any reimbursable general obligation bonds which are excluded in computing the total indebtedness of the State.

In order to carry out the provisions contained in the Constitution, the Legislature enacted Part IV of Chapter 39, HRS ("Part IV"), to require the Director of Finance to prepare statements of the total outstanding indebtedness of the State and the exclusions therefrom and of the debt limit of the State evidencing the power of the State to issue general obligation bonds and, prior to the issuance of any general obligation bonds, to find that the issuance of such bonds will not cause the debt limit of the State to be exceeded. Part IV provides that such statements shall be prepared as of July 1 of each year and submitted to the Legislature no later than December 1 of such year. The July 1, 2001 statement is the most recent such statement prepared and submitted to the Legislature. See "**INFORMATION ABOUT INDEBTEDNESS**" in Part I of Appendix B for a tabular summary of the statement of total outstanding indebtedness of the State and exclusions therefrom as of July 1, 2001, including general obligation bonded indebtedness, revenue bonded indebtedness, special assessment bonded indebtedness and special purpose revenue bonded indebtedness, and the permitted exclusions from the general obligation bonded indebtedness. See "**APPENDIX D—GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII.**"

The summary statement of debt limit of the State evidencing the power of the State to incur indebtedness sets forth the general fund revenues of the State, exclusive of federal grants, for the fiscal years ended June 30, 1999, 2000 and 2001 and the net general fund revenues after required exclusions, the average of the said three fiscal years, and the limit of total principal and interest which may be payable in any fiscal year. See "**SUMMARY STATEMENT OF THE DEBT LIMIT OF THE STATE OF HAWAII**" in Part I of Appendix B. The greatest amount of principal and interest payable in any fiscal year on the outstanding general obligation indebtedness as of February 1, 2001, and on the Bonds, after exclusions therefrom permitted by the Constitution, is $569,453,991 in the fiscal year ending June 30, 2009. A summary of debt service on all general obligation bonded indebtedness of the State is set forth in the under "**SUMMARY OF DEBT SERVICE**" in Part I of Appendix B; however, the debt service excluded in that table includes all general obligation bonds for which reimbursement is made regardless of whether such bonds may be excluded under the Constitution.

As calculated from the State Comptroller's bond fund report as of October 31, 2001, the amount of authorized but unissued general obligation bonds, adjusted for (a) appropriations made in Act 259, Session Laws of Hawaii 2001, to be expended in fiscal year 2003; (b) appropriations made in Act 1, Special Session Laws of Hawaii 2001, to be expended in fiscal year 2003; and (c) appropriations made in Act 3, Third Special Session Laws of Hawaii 2001, is $1,083,345,114. This amount does not include $200,000,000 authorized for the Hawaii Hurricane Relief Fund in Act 3, Special Session Laws of Hawaii 2001, to be expended in fiscal years 2002. As of December 31, 2001, the Hawaii Hurricane Relief Fund ceased to provide hurricane coverage. To fund its capital improvement program, the State plans to issue (in addition to the Series CX Bonds) $300 million during fiscal year 2003, $300 million during fiscal year 2004 and $250 million during fiscal year 2005.

Exclusions

The Constitution contains nine general provisions excluding certain types of bonds (including certain general obligation bonds) when determining the power of the State to issue general obligation bonds or the funded debt of any political subdivision. Six of these exclusions are described below. As stated above, the limitation on indebtedness of the State under the Constitution applies only to the power to issue general obligation bonds, and the limitation is measured by the debt service on general obligation bonds against the three year average of General Fund revenues. The three exclusions relating to revenue bonds, special purpose revenue bonds, and bonds issued under special improvement statutes for which the only security is the properties benefited or assessments thereon are chiefly of concern to counties when computing the funded debt of such counties. Accordingly, those provisions will not be discussed in this Official Statement. However, the complete provisions of Sections 12 and 13 of Article VII of the Constitution relating to the incurring of indebtedness by the State and its political subdivisions are set forth in Appendix C to this Official Statement.

One of the nine exclusionary provisions excludes bonds that have matured, or that mature in the then current fiscal year, or that have been irrevocably called for redemption and the redemption date has occurred or will occur in the then current fiscal year, or for the full payment of which monies or securities have been irrevocably set aside.

Another of the exclusionary provisions excludes reimbursable general obligation bonds (defined in the Constitution as general obligation bonds issued for a public undertaking, improvement or system from which revenues, or user taxes, or a combination of both, may be derived for the payment of the principal and interest as reimbursement to the General Fund and for which reimbursement is required by law, and, in the case of general obligation bonds issued by the State for a political subdivision, general obligation bonds for which the payment of the principal and interest as reimbursement to the General Fund is required by law to be made from the revenues of the political subdivision) issued for a public undertaking, improvement or system, but only to the extent that reimbursements to the General Fund are made from net revenues, or net user tax receipts, or both, derived from the particular undertaking, improvement or system for the immediately preceding fiscal year, with the result that the amount of reimbursable general obligation debt excluded will vary from year to year. A "user tax" is defined by the Constitution as a tax on goods or services or on the consumption thereof, the receipts of which are substantially derived from the consumption, use or sale of goods and services in the utilization of the functions or services furnished by a public undertaking, improvement or system. Thus, for example, the aviation fuel tax is a user tax insofar as the airports system of the State is concerned, since the tax is substantially derived from the sale of a good (aviation fuel) in the utilization of the functions of the airports, but the aviation fuel tax would not be a user tax so far as schools or a stadium is concerned, since the tax is not derived from the consumption or use or sale of goods in using schools or a stadium.

Two other exclusionary provisions exclude (a) reimbursable general obligation bonds of the State issued for any political subdivision, but only if reimbursement by the political subdivision to the State for the payment of the principal and interest is required by law and (b) general obligation bonds issued for assessable public improvements to the extent reimbursements to the General Fund for the principal and interest on such bonds are in fact made from assessment collections available therefore.

One other exclusionary provision excludes bonds constituting instruments of indebtedness under which the State incurs a contingent liability as a guarantor, but only to the extent the principal amount of such bonds does not exceed 7% of the principal amount of outstanding general obligation bonds not otherwise excluded by the exclusionary provisions of the Constitution and subject to the condition that the State shall establish a reserve in an amount in a reasonable proportion to outstanding loans guaranteed by the State. This exclusion is intended to permit the exclusion of such items as general obligation guarantees of loans under State loan programs to the extent the principal amount of such items does not exceed 7% of the outstanding principal amount of general obligation bonds not otherwise excluded. At such time as the principal amount of such items exceeds 7% of the outstanding principal amount of general obligation bonds not otherwise excluded, the potential debt service on all such items in excess of 7% of the outstanding principal amount of general obligation bonds not otherwise excluded would be included in determining the power of the State to incur indebtedness.

A final exclusionary provision excludes bonds issued by or on behalf of the State or a political subdivision to meet appropriations for any fiscal period in anticipation of the collection of revenues for such period or to meet casual deficits or failures of revenue, if required to be paid within one year, and bonds issued by or on behalf of the State to suppress insurrection, to repel invasion, to defend the State in war or to meet emergencies caused by disaster or act of God.

Other Constitutional and Statutory Provisions

General obligation bonds of the State must be authorized pursuant to the Constitution by a majority vote of the members to which each house of the Legislature is entitled. The Legislature from time to time enacts laws specifying the amount of such bonds (without fixing any particular details of such bonds) which may be issued and defining the purposes for which the bonds are to be issued.

The Constitution requires that general obligation bonds of the State with a term exceeding two years shall be in serial form maturing in substantially equal installments of principal, or maturing in substantially equal installments of both principal and interest, the first installment of principal to mature not later than five years from the date of the issue of such series and the last installment to mature not later than twenty-five years from the date of such issue, except that the last installment on general obligation bonds sold to the federal government, on reimbursable general obligation bonds and on bonds constituting instruments of indebtedness under which the State or a political subdivision incurs a contingent liability as a guarantor shall mature not later than thirty-five years from the date of such issue.

Part I of Chapter 39, HRS, as amended, is the general law for the issuance of general obligation bonds of the State. Such part sets forth limitations on general obligation bonds, such as interest rates and maturity dates, and also sets forth the provisions for the sale and form of such bonds. Such part provides that the Director of Finance, with the approval of the Governor, may issue from time to time general obligation bonds of the State in accordance with acts of the Legislature authorizing the issuance of such bonds and defining the purposes for which such bonds are to be issued.

The Governor determines when the projects authorized by the acts authorizing bonds shall commence. General obligation bonds are sold from time to time pursuant to the authorization of such acts and Part I of Chapter 39, HRS, as amended, in order to finance the projects. The Governor then allots the proceeds of the bonds so issued to the purposes specified in the acts authorizing bonds.

Section 11 of Article VII of the Constitution provides that all appropriations for which the source is general obligation bond funds or the General Fund must be for specified periods which may not exceed three years, except for appropriations from the State educational facilities improvement special fund. Any appropriation or any portion of an appropriation which is unencumbered at the close of the fiscal period for which the appropriation is made will lapse, provided that no appropriation or portion thereof for which the source is general obligation bond funds shall lapse if the Legislature determines that such appropriation is necessary to qualify for federal aid financing and reimbursement. A general obligation bond authorization, to the extent such authorization is dependent on a specific appropriation, must be reduced in an amount equal to the amount of appropriation lapsed by operation of law or Section 11 of Article VII of the Constitution.

Set forth in Appendix C to this Official Statement are the provisions of Sections 11, 12 and 13 of Article VII of the Constitution applicable to the incurring of indebtedness by the State and its political subdivisions.

Financing Agreements (Including Leases)

Chapter 37D, HRS, provides for financing agreements (including leases and installment sale agreements) for the improvement, use or acquisition of real or personal property which is or will be owned or operated by the State or any State agency and specifies that any such financing agreement shall not be an obligation for which the full faith and credit of the State or any state agency is pledged, and that no moneys other than amounts appropriated by the Legislature or otherwise held in trust for such purposes shall be required to be applied to the payment thereof. The Legislature is not required to appropriate moneys for such purpose, and financing agreements do not constitute "bonds" within the meaning of Sections 12 or 13 of Article VII of the Constitution. Chapter 37D does provide that the Governor's Executive Budget shall include requests to the Legislature for appropriation of moneys to pay amounts due each fiscal period under financing agreements.

Reimbursement to State General Fund for Debt Service

As indicated above, all general obligation bonds of the State are payable as to principal and interest from the General Fund of the State. Acts of the Legislature authorizing the issuance of general obligation bonds for certain purposes frequently (but not always) require that the General Fund be reimbursed for the payment from such fund of the debt service on such bonds, such reimbursement to be made from any income or revenues or user taxes derived from the carrying out of such purposes. Such income or revenues or user taxes are not pledged to the payment of such bonds. There are now outstanding general obligation bonds (including general obligation refunding bonds) issued for highway, harbor and airport facilities, for land development, for economic development projects, for university revenue projects, and for State parking facilities, where the General Fund of the State is required to be reimbursed for all debt service, and for the housing program, where the General Fund is required to be reimbursed for interest only. Reimbursement is made from the income or revenues or user taxes derived from or with respect to such highways, harbor and airport facilities, land development, economic development projects, university projects, parking facilities and housing programs. Of the bonds referred to in this paragraph: (a) reimbursement to the General Fund of general obligation bonds issued for highways is made exclusively from the tax on motor fuel and does not include any revenues such as toll revenue; and (b) reimbursement to the General Fund of general obligation bonds issued for airports is made from the aviation fuel tax as well as from airports system revenues. See "**TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONIES; BUDGET SYSTEM; EXPENDITURE CONTROL—Special Fund**" for a description of such taxes. Reimbursement to the General Fund of all the other general obligation bonds referred to in this paragraph is made from non-tax revenues, such as from wharfage and dockage charges, pier rentals and other charges for harbor facilities; from land sales or rentals; and from dormitory and dining hall revenues and income from other ancillary facilities.

Some of the bonds referred to in the immediately preceding paragraph do not constitute "reimbursable general obligation bonds" excludable from the debt limit because they are not issued for the type of public undertaking, improvement or system to which the constitutional provisions for such exclusion pertain. See "**DEBT STRUCTURE—Exclusions.**" See "**GENERAL OBLIGATION BONDS OUTSTANDING**" in Part I of Appendix B for a tabular summary of reimbursable and non-reimbursable general obligation bonds.

TAX STRUCTURE; GENERAL AND SPECIAL FUNDS; FEDERAL MONIES; BUDGET SYSTEM; EXPENDITURE CONTROL

Introduction

The State Constitution requires the establishment of a tax review commission to be appointed as provided by law every five years. The purpose of such commission is to submit to the Legislature an evaluation of the State's tax structure and to recommend revenue and tax policy, after which such commission is dissolved. The Constitution does not require action by the Legislature with respect to the recommendations as submitted. The Legislature has the option of accepting or rejecting all or portions of the commission's findings. The third tax review commission convened on September 26, 1995, and issued its report in final form on December 16, 1996. As a result of a proposed Constitutional amendment to have the tax review commission appointed every ten years, a commission was not appointed in 2000. The proposed amendment failed to pass and a commission was appointed in 2001. The findings and recommendations of the commission are merely recommendations and the Legislature is not required to adopt the findings.

The taxes described below account for substantially all of the tax revenues of the State and are subject in all cases to subsequent legislation. The Department of Taxation, headed by the Director of Taxation, is charged with the responsibility of administering and enforcing the tax revenue laws and the collection of all taxes and other payments payable thereunder. All tax revenues of the State are credited to one or the other of the two operating funds maintained by the State, designated respectively as the General Fund and the Special Fund. The revenues and expenditures for the last five fiscal years of these two funds are set forth hereinafter.

The State Constitution does not prohibit or limit the power of taxation and reserves all taxing power to the State, except to the extent delegated by the Legislature to the political subdivisions of the State and except all the functions, powers and duties related to real property taxation, which shall be exercised exclusively by the counties. The State cannot predict the impact, if any, of proposed changes in the federal individual and corporate income tax laws on the tax revenues of the State.

General Fund

The General Fund is used to account for resources not specifically set aside for special purposes. Any activity not financed through another fund is financed through the General Fund. The appropriations acts adopted by the Legislature provide the basic framework in which the resources and obligations of the General Fund are accounted. The operating appropriations and the related General Fund accounting process complement each other as basic control functions in the general administration of the government.

The Constitution provides that whenever the General Fund balance at the close of each of two successive fiscal years exceeds 5% of General Fund revenues for each of the two fiscal years, the Legislature in the next regular session shall provide for a tax refund or tax credit to the taxpayers of the State, as provided by law. Because the General Fund balance at the end of fiscal year 1999 was 5.75% of General Fund revenues and the General Fund balance for fiscal year 1998 was below 5% of General Fund revenues, the Legislature did not need to provide for a tax refund or tax credit for the 2000 tax year. However, because both fiscal year 2000 and fiscal year 1999 fund balances exceeded 5% of the General Fund revenues, Act 119, Session Laws of Hawaii 2001, provided for a tax credit for the 2001 tax year in the amount of $1 per qualified exemption for resident taxpayers. The fiscal year 2001 fund balances also exceeded 5% of the General Fund revenues; accordingly, the 2002 Legislature must provide for a tax refund or tax credit.

As part of the annual financial planning and executive budgeting process, the Department of Budget and Finance makes projections of the General Fund revenues and expenditures for each fiscal year and revises such projections from time to time during the fiscal year. See "**REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS—General Fund Financial Plan**" in Part I of Appendix B for further information.

Taxes and Other Amounts Deposited in General Fund

The proceeds of the taxes described below are deposited in the General Fund. See "**REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS—Actual Tax Collections and Distributions**" in Part I of Appendix B.

Individual and corporate income taxes, general excise and use taxes, public service company taxes, estate and certain transfer taxes, a franchise tax on financial corporations, liquor and tobacco taxes, and certain insurance premium taxes, which for fiscal year 2000 represented 88.1% of all tax revenues of the State, are deposited to the General Fund. The individual and corporate income tax rates for married or unmarried individuals, including Head of Household as well as estates and trusts, range from 1.5% to 8.25% of taxable income. Tax rates for corporations range from 4.4% to 6.4%. The general excise (gross income) tax is a business privilege tax measured by the application of rates against values of products, gross proceeds of sales or gross income. The use tax is an excise tax levied on tangible personal property or services imported or purchased from an unlicensed seller for resale or use in the State. The tax is based upon the purchase price or value of the tangible personal property or services purchased or imported, whichever is applicable. The Public Service Company tax is a tax measured by the gross income from public utility business of public utilities and the gross income of certain carriers. The estate and transfer tax is a tax on the transfer of a taxable estate equal to the federal credit for estate death taxes allowed by the Internal Revenue Code Section 2011. The franchise tax on financial corporations is assessed on taxable income from all sources not subject to the income tax. There is an excise tax on those who sell or use tobacco products and a gallonage tax imposed on dealers who sell or use liquor.

Other amounts deposited to the General Fund are derived from non-tax sources, including investment earnings, rents, fines, licenses and permits, grants, charges for administrative services and other sources. In fiscal year 2001, these non-tax revenues comprised approximately 10% of total deposits to the General Fund.

In addition, transient accommodations, conveyance and fuel taxes are allocated among various funds and to the counties. The transient accommodations tax of 7.25% is levied on the furnishing of a room, apartment, suite or the like customarily occupied by the transient for less than 180 consecutive days for each letting by a hotel, apartment, motel, horizontal property regime or cooperative apartment, rooming house or other place in which lodgings are regularly furnished to transients for consideration, including the fair market rental value of time share vacation units.

Special Fund

The Special Fund, which for accounting purposes is actually composed of several separate accounts, is used to account for revenues designated for particular purposes. The Special Fund is often of the same nature as the General Fund, the distinguishing characteristic being that the accounts in the Special Fund have legislative or other limitations imposed upon their use. The Special Fund is not a source of payment for the Bonds. The Special Fund is used primarily and extensively with regard to highway construction and maintenance, harbor and airport operations, hospital operations, housing and homestead programs, and certain programs in the area of education. The types of revenues credited to the various accounts in the Special Fund are user tax receipts (fuel taxes), revenues from public undertakings, improvements or systems (airports, harbors and university revenue-producing undertakings, among others), and various business, occupation and non-business licenses, fees and permits. There is a tax on authorized insurance companies (underwriters) based on premiums received in Hawaii and a conveyance tax on all documents transferring ownership or interest in real property, both of which support the Hawaii Hurricane Relief Fund.

The proceeds of the taxes described below are deposited in the Special Fund. See "**REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS– Actual Tax Collections and Distributions**" in Part I of Appendix B.

For fiscal year 2000, fuel taxes, rental motor vehicle and tour vehicle surcharge taxes, motor vehicle taxes and unemployment insurance, representing almost 8.8% of total tax revenues of the State, are deposited into the Special Fund. Distributors are required to pay taxes on aviation fuel, diesel oil, liquefied petroleum gas for operation of an internal combustion engine and on liquid fuels other than the foregoing, e.g., on liquefied petroleum gas used to operate motor vehicles upon the public highways. There is a rental motor vehicle surcharge tax on a rented or leased motor vehicle. The tax is levied on the lessor. There is also a tour vehicle surcharge tax for each tour vehicle in the 25 passenger seat and over category and for each tour vehicle in the 8 to 25 passenger seat category. The tax is levied on the tour vehicle operator. The State has a vehicle tax for vehicles up to and including 4,000 pounds net weight. The unemployment insurance tax is a tax on wages paid by employing units with one or more employees with certain exemptions. The unemployment tax rate is determined according to a multi-contribution schedule system. From January 1, 2001 through December 31, 2002, there is an additional employment and training fund assessment on taxable wages paid to an employee. The percentage rate for this additional tax is .03% for 2001 and .01% for 2002.

Federal Grants

State departments, agencies, and institutions annually receive federal grants. These amounts account for about 15% of the total State budget for each year, but are not a source of payment for the Bonds. Approximately 53% of the federal grants are awarded to human resources programs in public health, vocational rehabilitation, income maintenance, services to the blind, and other social or health services. Approximately 22% of such federal funds are used to support programs in the public schools, community colleges, and the university system. Transportation and highway safety activities received about 9% of all federal funds, primarily for interstate highway construction. Employment programs, including unemployment compensation benefit payments, account for about 5% of such federal receipts. Other programs account for the balance of such receipts. The following table details the annual federal grants for the indicated fiscal years to the State's departments, agencies and institutions.

Fiscal Year Ended June 30	Grant Amount ($ in millions)
1995	1,095.0
1996	1,204.0
1997	1,224.5
1998	1,109.6
1999	1,181.2
2000	1,142.3
2001	1,213.4

Budget System

Pursuant to the Executive Budget Act of 1970, the Planning, Programming and Budgeting System of the State was adopted. The purpose of this act is to integrate the planning, programming and budgeting processes to improve decisions on the allocation of resources. The act established a comprehensive system for State programs and their related costs over a time frame of six years. The operating and capital improvement requirements are evaluated together to insure compatibility and mutual support. Systematic evaluations and analyses are conducted to ascertain the attainment of program objectives and alternative means or methods of improving current State services. The act provides that the Director of Finance and the Governor may modify or withhold planned expenditures if such expenditures would be in excess of authorized levels of service or in the event that State receipts and surpluses would be insufficient to meet authorized expenditure levels.

The Legislature convenes annually in regular session on the third Wednesday in January. Regular sessions are limited to a period of 60 days, and special sessions are limited to a period of 30 days. Any session may be extended by no more than 15 days. At least 30 days before the Legislature convenes in regular session in an odd-numbered year, the Governor shall submit to the Legislature the Governor's proposed State budget of the executive branch for the ensuing fiscal biennium. The budgets of the judicial branch and the legislative branch are submitted by their respective leaders to the Legislature for its consideration. In such regular session, no appropriation bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the Legislature, shall be passed on final reading until the bill authorizing the operating expenditures for the executive branch for the ensuing fiscal biennium, to be known as the general appropriations bill, shall have been transmitted to the Governor.

In each regular session in an even-numbered year, the Governor may submit to the Legislature a bill to amend any appropriation for operating expenditures of the current fiscal biennium, to be known as the supplemental appropriations bill. In such session to which the Governor submits to the Legislature a supplemental appropriations bill, no other appropriations bill, except bills recommended by the Governor for immediate passage, or to cover the expenses of the Legislature, shall be passed on final reading until the supplemental appropriations bill shall have been transmitted to the Governor. To become law, a bill must pass three readings in each house on separate days.

Each bill passed by the Legislature shall be certified by the presiding officers and clerks of both houses and thereupon be presented to the Governor. If the Governor approves and signs the bill, it becomes law. If the Governor does not approve a bill, the Governor may return it, with the Governor's objections, to the Legislature. Except for items appropriated to be expended by the judicial and legislative branches, the Governor may veto any specific item or items in any bill which appropriates money for specific purposes by striking out or reducing the same; but the Governor shall veto other bills only as a whole.

The Governor has ten days to consider bills presented to the Governor ten or more days before the adjournment of the Legislature *sine die*, and if any such bill is neither signed nor returned by the Governor within that time, it shall become law in like manner as if the Governor had signed it.

The Governor has forty-five days, after the adjournment of the Legislature *sine die*, to consider bills presented to the Governor less than ten days before such adjournment, or presented after adjournment, and any such bill shall become law on the forty-fifth day unless the Governor by proclamation shall have given ten days' notice to the Legislature that the Governor plans to return such bill with the Governor's objections on that day. The Legislature may convene on or before the forty-fifth day in special session, without call, for the sole purpose of acting upon any such bill returned by the Governor. In case the Legislature shall fail to so convene, such bill shall not become law. Any such bill may be amended to meet the Governor's objections and, if so amended and passed, only one reading being required in each house for such passage, it shall be presented again to the Governor, but shall become law only if the Governor shall sign it within ten days after presentation.

Rainy Day Fund

Chapter 328L, HRS, relating to the Hawaii Tobacco Settlement Special Fund, which established a special fund for moneys received from the settlement between the State of Hawaii and various tobacco companies, also established the Emergency and Budget Reserve ("EBR") Fund, a special fund for emergency and rainy day purposes. 24½% (a reduction from 40%, effective in September 2001) of the moneys received from the tobacco settlement would go to the EBR Fund. All interest earned from moneys in the EBR Fund is credited to the general fund. Appropriations from the EBR Fund require a two-thirds majority vote of each house of the legislature. The EBR fund balance was $21.2 million as of June 30, 2001. Projected fund balances are $64 million at the end of fiscal year 2003 and $106 million at the end of fiscal year 2007.

The annual proceeds from the tobacco settlement were $48.6 million for fiscal year 2000 and $36.1 million for fiscal year 2001. PricewaterhouseCoopers LLP, independent auditors for the Tobacco Master Settlement Agreement, has estimated that the State will receive annual proceeds from the tobacco settlement as follows: $50 million for fiscal year 2002, $50.5 million for fiscal year 2003 and $42 to $63 million a year for fiscal years 2004 to 2025. Under the Tobacco Master Settlement Agreement, the State's proceeds are estimated to total $1.38 billion. The amount of future annual proceeds is not guaranteed and is subject to adjustment.

Of the tobacco settlement moneys received by the State each fiscal year, up to $350,000 is deposited in the Tobacco Enforcement Special Fund to enforce the provisions of the Tobacco Master Settlement Agreement.

In addition to allocating 24½% of the tobacco settlement moneys to the EBR Fund, Chapter 328L allocates 35% of the tobacco settlement funds to the Department of Health for health promotion and disease prevention programs (including up to 10% for the Department of Human Services to provide health insurance for needy children); and allocates 28% to the university revenue-undertakings fund to be applied to finance a University of Hawaii health and wellness center. The remaining 12½% is allocated to the Hawaii Tobacco Prevention and Control Trust Fund to reduce cigarette smoking and tobacco use. The allocations contained in Chapter 328L are subject to change by the Legislature at any time.

Expenditure Control

Expenditure Ceiling. The Constitution provides that notwithstanding any other provision to the contrary, the Legislature shall establish a General Fund expenditure ceiling which shall limit the rate of growth of General Fund appropriations, excluding federal funds received by the General Fund, to the estimated rate of growth of the State's economy as provided by law and that no appropriations in excess of such ceiling shall be authorized during any legislative session unless the Legislature shall, by a two-thirds vote of the members to which each house of the Legislature is entitled, set forth the dollar amount and the rate by which the ceiling will be exceeded and the reasons therefor. Pursuant to such Constitutional provision, Part V of Chapter 37, HRS, provides, in general, that appropriations from the General Fund for each year of the biennium or each supplementary budget fiscal year shall not exceed the expenditure ceiling for that fiscal year. The expenditure ceiling is determined by adjusting the immediate prior fiscal year expenditure ceiling by the applicable "state growth." State growth means the estimated growth of the State's economy and is established by averaging the annual percentage change in total State personal income for the three calendar years immediately preceding the fiscal year for which appropriations from the General Fund are to be made. The Governor is required to submit to the Legislature a plan of proposed aggregate appropriations for the State which includes the executive budget, proposed grants to private entities, any specific appropriation measures to be proposed by the executive branch and estimates of the aggregate proposed appropriations of the judicial and legislative branches of government. In any year in which this plan of proposed general fund appropriations exceeds the estimated expenditure ceiling, the Governor must declare the dollar amount, the rate by which the expenditure ceiling would be exceeded and the reasons for proposing appropriations in excess of the ceiling amount.

Appropriations for fiscal years 1997, 1998, 1999, 2000 and 2001 did not exceed the expenditure ceiling, and currently approved and proposed appropriations for fiscal years 2002 and 2003 are also below the expenditure ceiling.

The Constitution provides that no public money shall be expended except as appropriated by law. It also requires that provision for the control of the rate of expenditures of appropriated State monies, and for the reduction of such expenditures under prescribed conditions, shall be made by law and that General Fund expenditures for any fiscal year shall not exceed the State's current General Fund revenues and unencumbered cash balances, except when the Governor publicly declares the public health, safety or welfare is threatened, as provided by law.

Operating Expenditures. Maximum limits for operating expenditures are established for each fiscal year by legislative appropriations. Pursuant to Part II, Chapter 37, HRS, monies can be withheld by the Governor or the Director of Finance to ensure the solvency of each fund. Expenditure plans consisting of quarterly requirements of all State programs are prepared at the beginning of each fiscal year by the respective departments of State government. After the expenditure plans are evaluated, allotments are made to each department as prescribed by Chapter 37, HRS. Thereafter, no reallotments of funds are allowed between quarters and between personnel costs and other costs. Allotment transfers between different appropriation items within individual departments can be made after approval is obtained from the Governor, or if delegated, the Director of Finance. If federal funds allocable to a particular item are greater than had been estimated, the general funds are reduced proportionately as allowable, except for the Department of Education. Although the State has a biennial budget, appropriations are made for individual fiscal years and may not be expended interchangeably, except for appropriations to the Department of Education's instruction program which by statutory authority may be retained up to one year into the next fiscal biennium. The Office of the Governor approves all consultant contracts as to scope, justification, need, and cost. Department heads have been delegated authority to review and approve certain consultant contracts such as medical services. In order to realize savings from bulk acquisition, central purchasing is used for certain office and medical supplies, equipment, and motor vehicles. The Department of Accounting and General Services performs pre-audits on each financial transaction before any payment can be made, except for the University of Hawaii and the Department of Education, which have statutory authority to pre-audit payments made by themselves. Financial audits of individual programs and organizations are conducted on a periodic basis by the Department of Accounting and General Services. Internal audits are done on a continuous basis by each department. Management audits are accomplished on an as-needed basis by the Department of Budget and Finance. In addition, the State Auditor performs financial and management audits on a selective basis.

Capital Improvement Expenditure. Annual capital improvement expenditure plans are also prepared to control and monitor allotments and expenditures. Prior to the initiation of a project, it is reviewed for adherence to the State's General Plan and other economic considerations, and as to its justification. The Governor must approve the release of funds before any action can be taken. Competitive bidding is enforced to ensure that the lowest possible costs are obtained. Change orders during construction must be substantiated and approved by the expending agency. The need for additional capital improvement funds for each project must be approved by the Governor and must be funded from available balances of other capital improvement project appropriations. An assessment of the quality of construction material being used is performed on a continuous basis. Individual guarantees and warranties are inventoried and monitored as to the adequacy of stipulated performances.

In order to avoid any conflicts that may be created by the capital improvement program, the State has developed an overall State Plan and statewide planning system, which identifies both long and short-range goals, general implementation directions and coordination of statewide planning. The county general plans are part of this State Plan. Additional reviews and assessments are conducted to identify and resolve any environmental concerns and to preserve historical and archaeological sites, and coastal areas.

State Educational Facilities Improvement Special Fund

The State has established a State Educational Facilities Improvement Special Fund (SEFISF). The amounts in the SEFISF are to be used solely for capital improvements and facilities under the jurisdiction of the State Department of Education, except public libraries. Annual transfers of $90 million from General Excise Tax collections were used to fund the SEFISF. Act 364, Session Laws of Hawaii 1993 provided that general obligation bond authorizations may be used as an alternate source of funding the SEFISF. Act 110, Session Laws of Hawaii 1999 lowered the minimum funding requirement of the SEFISF from $90 million to $45 million.

In each of the fiscal years 1990, 1991, and 1992, $90 million from general excise tax collections were transferred to the SEFISF. A portion of the proceeds of general obligation bonds of the State have been deposited in the SEFISF in each fiscal year from 1993 and thereafter, and a portion of the proceeds of the Series CX Bonds may also be deposited in such fund. Act 328, Session Laws of Hawaii 1997, the General Appropriations Act of 1997, as amended by Act 116, Session Laws of Hawaii 1998, the Supplemental Appropriations Act of 1998, provided for expenditures of $156.9 million and $128.5 for the fiscal years 1998 and 1999, respectively, from the SEFISF. Act 91, Session Laws Hawaii 1999, as amended by Act 281, Session Laws Hawaii 2000, provided for expenditures of $110.8 million and $80.7 million for the fiscal years 2000 and 2001, respectively, from the SEFISF. Act 259, Session Laws Hawaii 2001, as amended by Act 3, Third Special Session Laws of Hawaii 2001, provided for expenditures of $80.1 million and $20.8 million, respectively, from the SEFISF.

EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM

Employee Relations

The Constitution grants public employees in the State the right to organize for the purpose of collective bargaining. Chapter 89, HRS, provides for 13 recognized bargaining units for all public employees throughout the State including State and county employees. Each bargaining unit designates an employee organization as the exclusive representative of all employees of such unit, which organization negotiates with the public employer. In the case of the bargaining units to which both the State and county employees belong, the representatives of the public employer with whom such bargaining units negotiate are the Governor of the State and the mayor of each of the counties. In the case of the Department of Education, the representatives are the Governor and the Board of Education, and in the case of the University of Hawaii, the representatives are the Governor and the Board of Regents. Decisions by the employer representatives of State and county employees are determined by simple majority vote with the Governor having four votes and each of the four mayors having one vote. By statute, if an impasse in any negotiation is declared, the parties may attempt to resolve the impasse through mediation, fact finding, and, if mutually agreeable to the parties, final and binding arbitration. Although the statute characterizes arbitration as "final and binding," it also provides that all cost items are subject to appropriations by the appropriate legislative bodies. If final and binding arbitration is not agreed upon, either party may take other lawful action to end the dispute, which could include an employee strike in ten of the bargaining units. In the case of fire fighters, police officers, and institutional health and correctional workers a strike is prohibited by law, and negotiation impasses are subject to mandatory final and binding arbitration, subject to appropriation of cost items, as described above. Certain employees are not party to a formal labor contract, including elected and appointed officials and certain contractual hires.

The 1999 Hawaii State Legislature also passed Act 100 which, in part, prohibits the State, the respective counties and the public employee unions from negotiating over cost items for the biennium 1999 to 2001. Cost items are defined as wages, hours, amounts of contribution by the State and counties to the Hawaii public employees health fund, and other terms and conditions of employment, the implementation of which requires an appropriation by a legislative body. That portion of Act 100, however, was overturned by the circuit court. The State appealed this matter to the Hawaii Supreme Court which heard oral arguments on July 23, 2001. The Hawaii Supreme Court's decision regarding the State's appeal is currently pending.

Negotiations have been completed for the period up to and including June 30, 2003. Unit 12, Police Officers, obtained an arbitrated decision, expiring June 30, 2003, providing for a 14.32% increase over four years. Seven other bargaining units, represented by the same union, Hawaii Government Employees Association (HGEA), also obtained arbitrated settlements providing for the following increases over the four-year period ending June 30, 2003: Unit 2, Blue Collar Supervisors, 9.55%; Unit 3, Non-supervisory White Collar Employees, 14.25%; Unit 4, White Collar Supervisors, 12.95%; Unit 6, Educational Officers, 13.93%; Unit 8, Administrative, Professional and Technical Employees of the University of Hawaii, 13.06%; Unit 9, Registered Professional Nurses, 11.32%; and Unit 13, Professional and Scientific Employees, 17.53%. The 2001 State Legislature and the various county councils approved funding the HGEA settlements, as well as an arbitrated settlement with Unit 11, Firefighters providing for a 13.27% increase over the four-year period ending June 30, 2003. The 2001 State Legislature also approved funding for the following arbitrated settlement increases over the same four-year period: for Unit 1, Blue Collar employees, 11.31%; Unit 5, Teachers, 16.8% plus differential; Unit 7, University of Hawaii Faculty, 10.1% plus merit; and Unit 10, Institutional and Hospital Employees 11.45%.

The 2001 Hawaii State Legislature passed Act 90, which authorizes privatization of government services. This act eliminates legal ambiguities regarding the ability to privatize services. While there are no major specific privatization plans, the act provides an important tool to increase productivity. In addition, Act 90 permits, as an option, a managed process of public-private competition for government services; and eliminates the binding arbitration process for Hawaii Government Employees Association bargaining units (white collar, clerical, nurses).

Also passed during the 2001 legislative session, Act 88, Session Laws of Hawaii 2001, Relating to Public Employees Health Benefits, effective July 1, 2001, establishes the Hawaii Employer-Union Health Benefits Trust Fund (Trust Fund). This Act establishes a new governance structure for public employees' health benefits by replacing the current Hawaii Public Employees Health Fund (HPEHF) with the Trust Fund, a more flexible, single health benefit delivery system. The Act provides for the new Trust Fund to become fully operational by July 1, 2003, with the current HPEHF abolished as of July 1, 2003. Establishment of the Trust Fund was intended to address the State's spiraling health benefit costs.

State Employees' Retirement System

The Employees' Retirement System of the State of Hawaii (the "System") began operation on January 1, 1926. The System is a cost-sharing, multiple-employer defined benefit pension plan. The System covers all regular employees of the State and each of its counties, including judges and elected officials. On March 31, 2001, the System's membership was comprised of approximately 59,992 active employees, 3,416 inactive vested members and 29,660 pensioners and beneficiaries. The total assets of the System on a market value basis amounted to approximately $8.8 billion as of June 30, 2001.

The statutory provisions of Chapter 88, HRS, govern the operation of the System. Responsibility for the general administration of the System is vested in a Board of Trustees, with certain areas of administrative control being vested in the Department of Budget and Finance. The Board of Trustees consists of eight members: the Director of Finance of the State, ex officio; four members of the System (two general employees, one teacher, and one retirant) who are elected by the members and retirants of the System; and three citizens of the State (one of whom shall be an officer of a bank authorized to do business in the State, or a person of similar experience) who are appointed by the Governor and may not be employees of the State or any county.

The System is funded on an actuarial reserve basis. Actuarial valuations are prepared annually by the consulting actuary to the Board of Trustees, to determine the employer contribution requirement. In recent years, the total actuarially determined employer contribution was reduced by some or all of the investment earnings in excess of the investment yield rate applied in actuarial valuations to determine the net employer appropriations to be made to the System. Act 327, Session Laws of Hawaii 1997, amended Section 88-107, HRS, so that, beginning with the June 30, 1997 valuation, the System retains all of its excess earnings for the purpose of reducing the unfunded actuarial accrued liability. However, Act 100, Session Laws of Hawaii 1999, reinstated the excess earnings credit for the June 30, 1997 and June 30, 1998 valuations. For those two valuations, the investment earning in excess earnings of a 10% actuarial return are to be applied as a reduction to the employer contributions. In accordance with the statutory funding provisions (Section 88-122 of Chapter 88, HRS, as amended by Act 327), the total actuarially determined employer contribution to the pension accumulation fund is comprised of the normal cost plus the level annual payment required to amortize the unfunded actuarial accrued liability over a period of 21 years from July 1, 1995. The contribution requirement is determined in the aggregate for all employers in the System and then allocated to individual employers based on the payroll distribution of covered employees as of the March preceding the valuation date. The actuarially determined employer contribution derived from a valuation is paid during the third fiscal year following the valuation date, e.g., the contribution requirement derived from the June 30, 1998 valuation was paid into the System during the 2000-2001 fiscal year. The actuarial cost method used to calculate employer contributions was changed by Act 327 from the frozen initial liability actuarial cost method to the entry age normal actuarial cost method effective with the June 30, 1995 actuarial valuation. Employer contributions are determined separately for two groups of covered employees: (1) police officers, firefighters, and corrections officers; and (2) all other employees who are members of the Retirement System.

Legislation enacted in 1984 created a noncontributory retirement plan for certain members of the System who are also covered under Social Security. The noncontributory plan covers most employees hired after June 30, 1984 and employees hired before that date who elected to join the plan. Police officers, firefighters, other enforcement officials, certain elected and appointed officials and other employees not covered by Social Security are excluded from the noncontributory plan.

As of March 31, 2001, the noncontributory plan covered approximately 48,884 active employees or 81% of all active members of the System. The number and percentage of noncontributory plan members will increase in the future because most new employees are required to be members of the noncontributory plan.

In 1998 legislation was passed (Act 157, Session Laws of Hawaii 1998) modifying the administration of the System, including its actuarial valuation methods and actuarial assumptions. As of June 30, 2001, the System had $991 million unfunded actuarial accrued liability, which included $75 million liability for early retirement incentive program costs. Since the System is a cost-sharing, multiple-employer public retirement system, the unfunded actuarial accrued liability is not allocated to the State and the Counties. The State's early retirement incentive program obligation at June 30, 2001 valuation was approximately $61 million of the $75 million for the System.

See "**STATE EMPLOYEES' RETIREMENT SYSTEM**" in Part I of Appendix B for summary of the actuarial certification, employer contribution rate and unfunded accrued liabilities information about the Retirement System, including employees of the State and each of its counties.

GENERAL ECONOMIC INFORMATION

General

Certain of the following material pertaining to economic factors in the State under the captions "**State of the Economy**" through and including "**Table 10**" has been excerpted from the December 2001 Quarterly Statistical and Economic Report ("QSER") prepared by the State of Hawaii Department of Business, Economic Development and Tourism ("DBEDT") and may be found at http://www.hawaii.gov/dbedt/qsr1201/index.html. Unless otherwise stated, the following information is historical; estimated figures are used only when the definitive figures are unavailable. The text refers to certain enumerated tables found under "**GENERAL ECONOMIC INFORMATION.**" Following descriptions of the various components of the State's economy and DBEDT's outlook for the economy, there is a brief description of the impact of these components on the State's fiscal position. See "**APPENDIX B-FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII.**"

DBEDT's current forecast for real Gross State Product ("GSP") (the value of all goods and services produced and consumed within the State adjusted for inflation) growth in 2002 is 1.2%. In real terms (adjusting for inflation), DBEDT estimates that 2002 GSP growth over 2001 will be 0.6%.

State of the Economy

The third quarter of 2001 began with Hawaii's economy growing more slowly in response to recession conditions on the U.S. mainland and in Japan. The third quarter ended with the sharp drop in visitor arrivals and increasing unemployment as a result of the events of September 11, 2001. However, continued consumer spending, federal government spending, and construction activity moderated the negative conditions.

In the third quarter of 2001, Hawaii's civilian employment exhibited a moderate increase over the previous quarter and over the third quarter of 2000. It was the tenth straight quarter that civilian employment increased. The number of civilians unemployed rose significantly, but the unemployment rate held relatively steady. Civilian employment continued to grow in October and November 2001 but at much slower rates. Unemployment rates increased above 5% in October and November for the first time in several years. (Table 3)

Non-agricultural wage and salary jobs increased by 0.7% measured year-to-year for the third quarter. The retail trade sector and the services sector produced much of the job growth in the private sector with increases of 1,700 and 800 jobs respectively over the third quarter of 2000. (Table 1) With the significant impact on the visitor industry, jobs fell in October and November 2001.

Personal income rose 4.1% in the second quarter of 2001, the period for which the most recent data are available, compared to the second quarter of 2000. Wage and salary growth was particularly strong. Wages and salaries rose by over $900 million, or 4.8% in the second quarter of 2001. Other labor income rose by 4.9% and proprietors' income grew by 3.3% in the second quarter of 2001 compared to the second quarter of 2000. (Table 4)

State general fund tax revenue grew 1.9% from the third quarter of 2000 to the third quarter of 2001, measured from the record annual collections of over $3 billion in 2000. GET revenue expanded 1.5% and net individual income tax revenue grew 1.2%. The Transient Accommodations Tax (TAT) revenue grew by 7.0% in the third quarter (Table 1). Tax revenue growth remained positive in the period October through December, despite the effects of September 11 largely due to technical factors.

The number of visitors arriving by air decreased 9.7% in the third quarter of 2001 from the third quarter of 2000. This was the largest quarterly decline in total visitor arrivals since the first quarter of 1991. Average daily census was down 6.7% and hotel occupancy rates also dropped, decreasing from 78.0% in the third quarter of 2000 to 70.6% in the third quarter of 2001. (Tables 7&8) Visitor arrival growth remained down by about 30% in October and November as compared to the same period last year, but improved somewhat in December (down 16%).

Overall, the construction industry activity in the third quarter decreased slightly from last year's third quarter level. As of the third quarter of 2001, the contracting tax base (a measure of construction put in place) increased 3.4%, while government contracts awarded are down 35.1%. (Table 9) Construction jobs declined 3.1% from the third quarter of 2000 to the third quarter of 2001 (Table 1).

Hawaii bankruptcy filings increased by almost 200, or 19.7% in the third quarter 2001 compared to the third quarter of 2000. The increase is similar to the increase in filings for the nation as a whole. U.S. bankruptcy filings increased 16%.

Outlook for the Economy

Prior to September 2001, DBEDT was expecting a strong second half to produce a modest gain in overall visitor arrivals for 2001. While the U.S. and international economic environment deteriorated during the first half of the year, continued strength in local economic activity resulted in only modest slowing in Hawaii's economic indicators. By late summer, Hawaii's economy was showing some renewed strength.

As of December, however, economic forecasts for the State were uncertain. At best, forecasts assume that military and domestic security issues will continue to be addressed effectively and will not retard the economic recovery. Even then, there is uncertainty about how fast consumers and businesses will return to pre-September spending plans and consumption patterns, including air travel.

Hawaii's recovery is closely tied to its visitor markets and the U.S. and international economic performance. The concerns about travel have increased the seriousness of the otherwise shallow recession that stalled the national economy since the spring of 2001. U.S. Real Gross Domestic Product (GDP) declined at a sharp 1.1% annual rate in the third quarter of 2001. The fourth quarter is also expected to show a decline in real GDP. However, the Blue Chip Economic Forecast, which is based on an average of 50 major U.S. forecasts, anticipates 1.1% growth in GDP in 2002.

Japan, on the other hand, appears to be facing a sharper and longer decline. Japan's GDP declined at a 2.2% annual rate in the third quarter of 2001. For 2002, the Blue Chip forecast expects Japan's economy to show a 0.7% decline in GDP.

In the absence of any new shocks to the confidence of travelers, visitor counts should improve considerably in 2003. However, it could be mid 2003 before visitor arrivals are back to pre-September 11, 2001 levels.

Total wage and salary jobs in the state were expected to increase nearly 2% in 2001, but layoffs in the last 3 ½ months of the year are now expected to reduce the gain to 0.4%. After inflation, the real gain in State Personal Income and Gross State Product (GSP) will also be positive for 2001, despite the fourth quarter declines. Real Personal Income is forecast to show a 2.0% increase for the year, while real GSP is expected to increase by 1.2%.

If the impact of international events and domestic security concerns remain relatively neutral, DBEDT expects Hawaii to show a 3.0% gain in visitor arrivals for 2002, but the gain will not be enough to make up for visitor arrivals lost in 2001. Therefore, job count will likely experience a modest decline of about 0.7% in 2002.

The forecast expects all sectors of the state's economy to attain pre-September 11, 2001 levels or better by the second half of 2003. Increasing strength in the state's visitor markets is expected to boost arrivals by about 6.7% in 2003 and bring the total visitor count for the year back up to the year 2000 level. This will help the overall job count manage a 2.0% increase for 2003. The economy should then be poised for better than average growth in 2004.

As a result of the events of September 11, 2001, the Governor called the Legislature into a third special session, which convened on October 22, 2001 and adjourned on October 31, 2001. Fifteen measures were enacted by the Legislature and approved by the Governor. These measures appropriated moneys for food, housing, health insurance, and jobs for residents of Hawaii potentially affected by the economic impact of those events. One measure transferred $33 million from the Tobacco Settlement Special Fund to the Emergency Budget and Reserve Fund (Rainy Day Fund) to provide for public health, safety and welfare needs. To stimulate the construction industry, $100 million of general obligation bond funds were appropriated for education-related improvements and another $300 million of revenue bond funds and private contributions were approved for the construction of a university health and wellness center. The Hawaii Tourism Authority was given an additional $10 million to promote Hawaii as a tourist destination. The Legislature appropriated $47 million for the Department of Transportation to provide for security measures for the State airports, harbors and highways. Changes were enacted to the Hawaii Public Procurement Code to provide greater flexibility for the purchase of goods, services and construction. The Governor was also given special powers to declare an economic emergency during the period from September 11, 2001 to April 30, 2002, and was empowered to suspend certain statutes, rules or orders and adopt rules to provide relief to residents of the State to facilitate continuity of business activity and services, minimize employee layoffs and prevent endangerment of public health, safety or welfare; and to suspend, waive or defer certain contract obligations owed to the State. Finally, the Governor was authorized to waive landing fees and airport system support charges. Pursuant to such authorization, the Governor instituted a waiver of landing fees beginning in September, and instituted a waiver of the minimum guaranteed payments for concession operators at the airports, whose rent is now based on a percentage of gross receipts. Both waiver programs continue on a month-to-month basis, but will terminate automatically April 30, 2002, unless further action is taken by the Legislature.

Information on Employment, Wages and Salaries, Tax Revenues and Tax Base

Table 1

SELECTED ECONOMIC ACTIVITIES: STATE

SERIES		3rd QUARTER 2001		YEAR TO DATE	
	UNIT	NUMBER	% CHANGE YEAR AGO	NUMBER	% CHANGE YEAR AGO
CIVILIAN LABOR FORCE[1]	Persons	608,950	2.2	604,150	1.6
Civilian Employment	Persons	581,050	1.9	577,350	1.6
Civilian Unemployment	Persons	27,900	8.3	26,800	1.5
UNEMPLOYMENT RATE[2]	%	4.6	0.3	4.4	0.0
TOTAL NON-AGRICULTURE WAGE & SALARY[1]	Jobs	553,800	0.7	557,800	1.7
Contract Construction	Jobs	23,550	-3.1	23,550	0.9
Manufacturing	Jobs	17,700	1.1	17,450	1.7
Transportation, Communication, Utilities	Jobs	42,750	0.0	42,900	1.8
Trade	Jobs	139,150	1.2	139,150	2.4
Retail	Jobs	117,550	1.5	117,350	2.6
Finance, Insurance, & Real Estate	Jobs	33,700	1.0	33,700	0.7
Services & Miscellaneous	Jobs	185,900	0.4	186,900	2.6
Hotels	Jobs	38,600	-0.1	38,750	1.4
Health	Jobs	37,300	0.9	37,350	2.2
Business	Jobs	31,250	0.8	31,300	4.2
Government	Jobs	111,100	1.2	114,200	0.1
State	Jobs	63,300	3.2	66,950	1.1
Federal	Jobs	30,650	-1.0	30,500	-1.9
Local	Jobs	17,150	-1.7	16,700	-0.3
AGRICULTURE WAGES AND SALARIES[1]	Jobs	7,550	-7.4	7,150	-10.1
STATE GENERAL FUND REVENUES	$1,000	789,188	1.9	2,432,629	4.5
TRANSIENT ACCOMMODATIONS TAX	$1,000	44,900	7.0	138,552	3.6
GENERAL EXCISE AND USE TAX	$1,000	406,543	1.5	1,251,231	2.8

Notes: *(1) Labor force and jobs based on monthly rounded data were rebenchmarked in March 2001.*
(2) Change represents absolute change in rates rather than percentage change in rates.

Sources: Hawaii State Department of Labor & Industrial Relations; Hawaii State Department of Taxation; and Smith Travel Research, PricewaterhouseCoopers LLP. Compiled by Hawaii State Business Economic Development & Tourism Planning Information System.

Key Economic Indicators

Table 2

ACTUAL AND FORECASTED KEY ECONOMIC INDICATORS FOR HAWAII: 2000 TO 2004

Economic Indicators	2000 Actual	% Change	2001 Forecast	% Change	2002 Forecast	% Change	2003 Forecast	% Change	2004 Forecast	% Change
Total population (in thousands)	1,216.4	(NA)	1,226.1	0.8	1,235.9	0.8	1,224.6	0.7	1,253.3	0.7
Visitor arrivals (in thousands)	6,948.6	3.1	6,321.4	-9.0	6,510.9	3.0	6,949.1	6.7	7,120.4	2.5
Honolulu CPI-U (1982-84=100)	176.3	1.7	178.6	1.3	180.9	1.3	184.0	1.7	187.5	1.9
Personal income (in million dollars)	33,776.0	4.1	33,789.3	3.3	35,485.1	2.0	36,798.0	3.7	38,233.1	3.9
Personal income (in $1992 million)	29,745.0	2.4	30,251.8	2.0	30,463.6	0.7	31,072.9	2.0	31,684.4	2.0
Total wage & salary jobs (in thousands)	559.4	3.1	561.9	0.4	557.9	-0.7	569.1	2.0	580.4	2.0
Gross state product (in million dollars)	39,394.3	5.3	40,376.6	2.5	41,130.0	1.9	42,564.4	3.5	44,217.7	3.9
Real gross state product (in $1992 million)	35,142.1	3.7	35,556.2	1.2	35,754.8	0.6	36,383.2	1.8	37,091.7	1.9
Gross state product deflator (1992=100)	112.1	1.5	113.6	1.3	115.0	1.2	117.0	1.7	119.2	1.9

NA - not available.
Source: Hawaii State Department of Business, Economic Development & Tourism, December 2001.

Labor Force and Jobs

In the third quarter of 2001, Hawaii's civilian employment exhibited a moderate increase over the previous quarter and the third quarter of 2000. It was the tenth straight quarter that civilian employment increased. The number of civilians unemployed rose, but the unemployment rate held steady.

Increases in both employment and unemployment were made possible by continued growth in the available labor force to an all-time high of 608,950. Compared to the third quarter of 2000, the civilian labor force rose 2.2% (Table 1). This follows the 1.3% second quarter 2001 year-to-year increase that was then the fastest labor force increase since 1996.

Civilian employment increased 1.9% from the third quarter 2000 through the third quarter of 2001. The number of unemployed increased 2,150, or 8.3% over the same period in 2000. However, the unemployment rate declined from 4.6% to 4.5%. This seeming anomaly results from the labor force increasing more than unemployment. (Table 1)

Non-agricultural wage and salary jobs increased by 0.7% measured year-to-year for the third quarter. The retail trade sector and the services sector produced much of the job growth in the private sector with increases of 1,700 jobs, a 1.5% increase, and 800 jobs, a 0.4% increase, respectively, over the third quarter of 2000. Retail trade at 117,550 jobs set a new third quarter employment record. (Table 1)

A number of other industries also showed positive job growth in the third quarter of 2001 compared to the same period in 2000. Jobs increased in manufacturing (1.1%) to reach the highest level since 1994. Jobs also increased in transportation and utilities (1.8%); and finance, insurance and real estate (1.0%). On the other hand, jobs declined in construction (-3.1%); communications (-2.3%); wholesale trade (-.2%); and agriculture (-7.4%). (Table 1)

Total government jobs increased 1.2% in the third quarter of 2001. Federal government and local government jobs fell 1.0% and 1.7%, respectively, from the third quarter of 2000. State government jobs increased 3.2% from the third quarter of 2000. The Department of Education accounted for 77% of the State jobs increase. (Table 1)

Table 3

CIVILIAN LABOR FORCE AND EMPLOYMENT
(in thousands of persons)

Year	Civilian Labor Force	% Change Civilian Labor Force	Civilian Employment	% Change Civilian Employment	Civilian Unemployment Rate
1991	573.8	5.9	557.8	5.8	2.8
1992	584.0	1.8	557.4	-0.1	4.6
1993	586.0	0.3	560.9	0.6	4.3
1994	580.2	-1.0	545.0	-2.8	6.1
1995	576.4	-0.6	542.7	-0.4	5.9
1996	593.6	3.0	555.8	2.4	6.4
1997	594.7	0.2	556.7	0.2	6.4
1998	594.4	-0.1	557.2	0.1	6.2
1999	592.8	-0.3	559.6	0.4	5.6
2000	595.5	0.4	569.9	1.8	4.3
2001[1]	608.9	2.2	581.1	1.9	4.5

[1] *As of Third Quarter 2001.*
Note: Data from 1998 were rebenchmarked by DLIR in March 2001.
Source: Hawaii State Department of Labor and Industrial Relations.

Income and Prices

Personal income continued to grow during the second quarter of 2001 (the period for which the latest data are available). Wages and salaries, other labor income, transfer payments, and proprietors' income showed substantial increases. Growth was more moderate for dividends, interest, and rent. All industries except finance, insurance, and real estate saw increases in earnings during the period.

All the components of personal income saw increases in the second quarter of 2001compared to the second quarter of 2000: personal income rose 4.1%; wages and salaries, which account for about 57% of personal income, rose by 4.8%, or by over $900 million; other labor income rose by 4.9%; proprietors' income grew by 3.3%; dividends, interest, and rent rose by 1.0%; and transfer payments, consisting largely of retirement and medical payments, grew by 5.8%. (Table 4)

Private sector earnings increased across almost all industries. In dollar terms, the largest increases came in services followed by transport and public utilities; retail trade; manufacturing; and construction. Earnings declined in finance, insurance and real estate. Earnings in manufacturing grew 16.9%, which was the highest percentage of any industry. Earnings increased by 3.3% in the public sector, entirely as a result of the 5.6% increase in the federal component. (Table 4)

The robust increases in personal income are significant, since inflation in Hawaii remains low. The Honolulu consumer price index rose by only 1.3% in the first half of 2001 compared to the same period in 2000 (Table 6). This was lower than was expected for Honolulu and also much lower than the 3.4% inflation experienced on the Mainland during the period.

Table 4

PERSONAL INCOME FOR HAWAII BY MAJOR SOURCES
(in millions of dollars at seasonally adjusted annual rates)

Series	Annual Average 1999	Annual Average 2000	Ann Avg % Change 1999-2000	Second Quarter 2000	Second Quarter 2001	% Change 2nd Qtr 00 - 2nd Qtr 01
Derivation of Personal Income						
Wage and salary disbursements	18,277	19,254	5.3	19,228	20,158	4.8
Plus: Other labor income	2,749	2,799	1.8	2,772	2,908	4.9
Plus: Proprietors' income	2,548	2,609	2.4	2,614	2,701	3.3
Less: Personal contribution for social insurance	1,312	1,365	4.0	1,366	1,420	4.0
Dividends, interest, rent	6,261	6,389	2.0	6,378	6,440	1.0
Transfer payments	3,928	4,089	8.7	4,081	4,319	5.8
Personal income	32,450	33,776	4.1	33,708	35,106	4.1
Earnings by Industry	23,573	24,663	4.6	24,614	25,767	4.7
Farm	217	200	-7.8	201	226	12.4
Nonfarm	23,356	24,463	4.7	24,413	25,541	4.6
Private	16,195	17,181	6.1	17,158	18,045	5.2
Agriculture forestry, fishery, other	141	150	6.2	149	153	2.7
Mining	25	26	6.1	26	28	7.7
Construction	1,316	1,471	11.8	1,448	1,541	6.4
Manufacturing	714	756	6.0	750	877	16.9
Transportation and public utilities	1,840	1,936	5.2	1,903	2,061	8.3
Wholesale trade	835	871	4.3	864	920	6.5
Retail trade	2,623	2,762	5.3	2,745	2,880	4.9
Finance, insurance, real estate	1,962	1,964	0.1	2,003	1,965	-1.9
Services	6,739	7,246	7.5	7,270	7,621	4.8
Government & government enterprises	7,162	7,282	1.7	7,256	7,496	3.3
Federal, civilian	1,836	1,960	6.8	1,950	2,057	5.5
Federal, military	2,294	2,382	3.8	2,341	2,476	5.8
State and local	3,032	2,940	-3.0	2,965	2,964	0.0

Source: U.S. Department of Commerce, Bureau of Economic Analysis, State Quarterly Personal Income, April 24, 2001, and tabulations by the Hawaii State Department of Business, Economic Development & Tourism.

Table 5

PERSONAL INCOME
(in millions of dollars at seasonally adjusted annual rates)

YEAR	ANNUAL AVERAGE	% CHANGE [1]
1990	24,915	10.8
1991	26,198	5.1
1992	27,859	6.3
1993	29,068	4.3
1994	29,740	2.3
1995	30,202	1.6
1996	30,393	0.6
1997	31,218	2.7
1998	31,854	2.0
1999	32,450	1.9
2000	33,776	4.1
2001 (2nd Qtr)	35,106	4.1

(1) percentage change from the same period in previous year.
Source: U.S. Department of Commerce, Bureau of Economic Analysis. State Quarterly Personal Income: October 24, 2001 and tabulations by the Hawaii State Department of Business, Economic Development & Tourism.

Table 6

CONSUMER PRICE INDEX, ALL URBAN CONSUMERS (CPI-U), AND SELECTED ITEMS, FOR U.S. AND HONOLULU: 1992-2000
(1982-1984 = 100)

		HONOLULU								
Year	U.S.	All Items	Food & Beverages	Housing	Apparel & Upkeep	Trans.	Medical Care	*(1)* Recreation	*(1)* Education & Comm.	Other Goods & Services
1992	140.3	155.1	148.5	161.7	114.2	147.4	182.6	(NA)	(NA)	189.0
1993	144.5	160.1	152.9	166.5	116.5	150.5	197.4	(NA)	(NA)	200.1
1994	148.2	164.5	153.4	171.6	118.7	156.4	206.0	(NA)	(NA)	209.6
1995	152.4	168.1	156.8	174.7	117.5	162.4	209.8	(NA)	(NA)	216.8
1996	156.9	170.7	156.6	176.8	118.5	167.0	215.0	(NA)	(NA)	226.5
1997	160.5	171.9	159.2	177.1	117.3	166.2	217.3	(NA)	(NA)	239.0
1998	163.0	171.5	159.1	176.0	112.2	162.5	226.1	100.8	99.1	256.1
1999	166.6	173.3	162.9	175.8	105.4	162.2	231.3	101.9	104.5	275.6
2000	172.2	176.3	164.8	177.9	103.5	169.6	239.8	102.8	106.5	279.7
2000 (2)	170.8	175.9	165.5	177.3	104.5	167.7	235.9	103.1	107.3	277.5
2001 (2)	176.6	178.1	168.3	178.8	99.97	176.0	246.1	102.1	103.5	287.5

(1) New indexes as of January 1998. Base period is December 1997.
(2) As of 1st half.
Source: U.S. Bureau of Labor Statistics, August 16, 2001.

Tourism

Economic activity in the visitor industry declined in the third quarter of 2001 from the third quarter of 2000. The number of visitors arriving by air decreased 9.7% in the third quarter of 2001 from the third quarter of 2000, which was the largest quarterly decline in total visitor arrivals since the first quarter of 1991. The number of travelers on domestic flights declined by 6.6% and the number on international flights fell 15.2%. (Table 7)

Considering visitors from various major market areas, the greatest absolute and relative decrease came from visitor arrivals from Japan. Japanese visitors, staying in Hawaii overnight or longer, decreased by over 65,000, or 13.3%, from third quarter 2000 to the third quarter 2001. While this decrease was accelerated following September 11, 2001, it was already in progress as a result of the recession in the Japanese economy and the weakening Yen.

The total average daily census numbers were down by 6.7% from the third quarter of 2000 to the third quarter of 2001. By flight direction, the average daily visitor census for domestic and international visitors was down 5.6% and 9.9%, respectively. The average daily census reflects both arrivals and length of stay. Average length of stay increased 1.1% and 6.3% for domestic and international visitors over the same period. (Table 7)

Hotel occupancy rates also dropped, decreasing from 78.0% in the third quarter of 2000 to 70.6% in the third quarter of 2001. A drop in hotel occupancy rates is to be expected when the arrivals and the visitor census rates decline. (Table 8)

Table 7

VISITOR ARRIVALS [1)]
Average Length of Stay, Visitor Days, Average Daily Census
(Percentage Change from the Same Period in Previous Year)

	3rd QUARTER 2000	3rd QUARTER 2001	% Change
TOTAL ARRIVALS			
Total Visitor Arrivals	1,818,701	1,642,014	-9.7
Domestic Flight Arrivals	1,159,909	1,083,222	-6.6
International Flight Arrivals	658,792	558,792	-15.2
AVERAGE LENGTH OF STAY			
Total Visitor Arrivals	8.67	8.96	3.3
Domestic Flight Arrivals	10.00	10.11	1.1
International Flight Arrivals	6.34	6.73	6.3
VISITOR DAYS			
Total Visitor Arrivals	15,772,940	14,714,296	-6.7
Domestic Flight Arrivals	11,598,900	10,952,048	-5.6
International Flight Arrivals	4,174,040	3,762,340	-9.9
AVERAGE DAILY CENSUS			
Total Visitor Arrivals	171,445	159,938	-6.7
Domestic Flight Arrivals	126,075	119,044	-5.6
International Flight Arrivals	45,370	40,895	-9.9

1) Staying overnight or longer.
Source: Hawaii State Department of Business, Economic Development & Tourism.

Table 8

HOTEL OCCUPANCY RATE
(in percent)

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Annual
1990	83.9	75.5	81.0	74.3	78.8
1991	68.2	70.7	79.7	72.5	72.4
1992	75.3	68.6	75.5	75.2	72.7
1993	75.3	67.9	73.8	72.5	72.0
1994	80.9	72.7	79.1	74.8	76.5
1995	79.5	70.3	79.2	75.1	75.8
1996	81.9	72.3	77.1	70.0	75.2
1997	79.5	70.8	75.5	69.9	73.9
1998	77.4	68.7	72.9	68.0	71.5
1999	77.1	67.5	74.8	68.9	72.1
2000	78.2	74.5	78.0	72.8	76.0
2001	80.5	70.0	70.6	NA	NA

NA – Not available.

Quarterly averages are computed by Hawaii State Department of Business, Economic Development & Tourism from PKF-Hawaii monthly averages through January 1995 and Hospitality Advisors LLC monthly averages from February 1995.

Source: Hawaii State Department of Business, Economic Development & Tourism and PKF — Hawaii and Hospitality Advisors LLC.

Construction

Construction industry activity in the third quarter of 2001 decreased from the prior year's third quarter level. Both the contracting tax base (a measure of construction put in place) and government contracts awarded are down from a year ago.

As of the third quarter of 2001, the contracting tax base, the activity subject to the general excise tax, had increased 3.4% from the same period last year. The contracting tax base is a proxy for completed construction. This measure grew by almost 21% in 2000. (Table 9)

Construction jobs also decreased in the third quarter as compared to 2000. Construction jobs declined 3.1% from the third quarter of 2000 to the third quarter of 2001. (Table 1) By county, construction jobs grew 14.8% in Hawaii County; realized no gain or loss in Kauai County; fell 6.5% in the City and County of Honolulu and declined 1.8% in Maui County.

Private building permit authorizations, a measure of prospective construction activity, showed positive growth in Hawaii County and the City and County of Honolulu, expanding by 86.4% and 4.3%, respectively. Private authorization decreased on Kauai by 23.0% in the third quarter of 2001 from the year-earlier quarter. Data for Maui County are not available for the third quarter of 2001.

As of the third quarter 2001, government contracts awarded were down 35.1% from the same period a year ago. Most of the decline is attributed to a surge in government contract awards in the third quarter of 2000 where $405.1 million of the total of $810.9 million awards for the entire year of 2000 were made. (Table 9)

The Honolulu Construction Cost Index for Single Family Residences increased by 5.2% over the third quarter of 2000. The comparable index for high-rise buildings rose by 5.1%.

Table 9

ESTIMATED VALUE OF COMPLETED CONSTRUCTION, NEW PRIVATE BUILDING AUTHORIZATIONS, AND GOVERNMENT CONTRACTS AWARDED
(in millions of dollars and percentage change from the previous period)

			Private Building Authorizations									
Year	Contracting Tax Base	%	Private Authorizations	%	Residential	%	Commercial Industrial[1]	%	Additions/ Alterations	%	Govt. Contracts Awarded	%
1990	4,003.7	29.1	2,101.8	11.7	952.3	4.6	698.0	24.2	451.5	10.1	825.5	13.8
1991	4,334.1	4.5	2,151.8	2.4	1,192.0	25.2	556.2	-20.3	403.7	-10.6	729.4	-11.6
1992	4,012.7	-8.2	1,751.9	-18.6	811.1	-32.0	532.3	-4.3	408.5	1.2	1,159.1	58.9
1993	3,803.6	-4.2	1,505.4	-14.6	742.1	-9.4	308.0	-42.5	455.3	11.5	651.8	-43.8
1994	3,322.3	-12.4	1,612.9	7.8	849.3	15.6	370.3	20.9	393.4	-13.6	693.0	6.3
1995	3,133.5	-4.9	1,531.3	-5.1	745.5	-12.2	368.3	-0.5	417.5	6.1	490.2	-29.3
1996	3,285.1	2.8	1,117.8	-27.1	487.0	-34.7	252.8	-31.4	378.0	-9.5	885.5	80.7
1997	2,944.4	-10.4	1,179.2	5.5	542.5	11.4	264.5	4.6	372.2	-1.5	615.6	-30.5
1998	3,016.0	-1.3	1,054.3	-10.6	485.5	-10.5	205.6	-22.2	363.2	-2.4	685.5	11.3
1999	2,991.2	-0.8	1,320.2	29.7	628.8	33.3	306.2	25.3	385.3	13.4	584.8	-14.7
2000[2]	3,613.5	20.8	1,512.6	14.6	800.1	27.2	246.2	-19.6	466.2	21.0	810.9	1.5
2001	2,732.1[3]	3.4	771.5[4]	3.6	406.0[4]	2.0	174.5[4]	30.0	191.1[4]	-10.0	466.8[3]	-35.1

1) *Includes hotels.*
2) *Kauai County data for November consist of residential data only.*
3) *As of third quarter 2001 – latest data available.*
4) *As of second quarter 2001 – latest data available.*

Source: Hawaii State Department of Taxation; F.W. Dodge; County building departments; First Hawaiian Bank, Building Industry, and tabulation by Hawaii State Department of Business, Economic Development & Tourism.

Table 10

ESTIMATED VALUE OF PRIVATE BUILDING CONSTRUCTION AUTHORIZATIONS, BY COUNTY
(in thousands of dollars and percentage change from the previous year)

Year	State	%	City & County of Honolulu	%	Hawaii County	%	Kauai County	%	Maui County	%
1990	2,101,767	11.7	998,921	-4.7	429,964	27.2	238,968	33.7	433,916	36.7
1991	2,151,849	2.4	1,462,676	46.4	369,454	-14.1	118,547	-50.4	201,174	-53.6
1992	1,751,871	-18.6	1,060,700	-27.5	379,158	2.6	111,098	-6.3	200,916	-0.1
1993	1,496,486	-14.6	959,041	-9.6	248,236	-34.5	86,032	-22.6	203,177	1.1
1994	1,612,899	7.8	1,073,264	11.9	181,059	-27.1	164,681	91.5	193,894	-4.6
1995	1,531,317	-5.1	980,703	-8.6	267,108	47.5	78,918	-52.1	204,588	5.5
1996	1,117,760	-27.0	698,697	-28.8	171,017	-36.0	101,981	29.2	146,065	-28.6
1997	1,179,182	5.4	772,825	10.6	155,776	-8.8	97,808	-4.1	152,773	4.6
1998	1,054,281	-10.5	624,227	-19.2	178,220	14.4	88,196	-9.2	163,640	7.1
1999	1,320,218	29.7	706,358	20.8	243,852	36.8	140,846	59.7	229,162	40.0
2000[1]	1,512,601	14.5	694,223	-.0	321,704	31.9	141,313	0.3	355,360	55.1
2001	771,530[2]	3.6	515,052[3]	5.4	280,181[3]	26.4	147,892[3]	33.2	166,628[2]	-17.8

1) *Kauai County data for November consist of residential data only.*
2) *As of second quarter 2001 – latest data available.*
3) *As of third quarter 2001 – latest data available.*

Source: County Building Permits.

Federal Government Expenditures

Total expenditures by the federal government in the State for the fiscal years[1] 1992 to 2000 were $6.6 billion, $7.3 billion, $7.6 billion, $7.5 billion, $8.0 billion, $8.2 billion, $8.4 billion, $8.6 billion, and $9.0 billion

[1] The federal fiscal year is October 1 through September 30 of the year designated.

respectively. Federal government outlays for both defense and nondefense activities are among the largest expenditures in the State. Overall, federal spending in Hawaii is roughly 12% of Gross State Product (GSP), with much of that being defense-related. At $7,441, per capita federal spending in Hawaii in fiscal year 2000 ranked sixth highest among the states after Alaska, Virginia, Maryland, North Dakota, and New Mexico. Hawaii maintained its ranking as second in per capita federal defense expenditures in fiscal year 2000. This was the fifth year in a row that the federal government spent more than a billion dollars in procurement in Hawaii with $1.3 billion in fiscal year 2000.

In fiscal year 2000, the federal government paid wages and salaries of $2.4 billion to active and inactive military and civilian employees. The Federal government employed 30,050 civilian and 33,930 active-duty military personnel in 2000.

Defense expenditures fluctuated between $2.9 billion in 1992 and $3.5 billion in fiscal year 2000. Military spending in Hawaii remains a relatively stable and important source of outside income. Because of the strategic location of Hawaii in the Pacific, the overall Hawaii federal defense sector has increased from $3,356 million in fiscal year 1999 to $3,473 million in fiscal year 2000. This was an increase of 3.5% compared to a 0.3% increase at the national level. The latest data from the U.S. Department of Commerce indicate that the total earnings of military personnel in the second quarter of 2001 were 5.8% higher than a year earlier. Total federal civilian jobs in the armed forces decreased by 4.2% from the second quarter of 2001 compared to the same period in 2000.

In the fiscal year 2002 Military Construction Appropriations Bill and National Defense Authorization Bill[2] are $382.81 million and $444 million respectively for defense-related initiatives for Hawaii for a total of greater than $826.81 million. In the former, among the Military Construction projects are land purchases, construction and renovation projects for headquarters and support, bachelor and family housing units, and infrastructure. By service, the projects and their appropriations are: Defense-wide: $29.2 million; Department of the Army $92.3 million; Department of the Navy and Marine Corps $286.2 million; and Department of the Air Force $25.0 million.

Major fiscal year 2002 non-defense program authorizations include the U.S. Department of Education's $39.5 million for Hawaii's Impact Aid. This funding is part of funding nationwide and represents a nearly $10 million increase from funds the State received last year. The programs provide support to school districts with students who are children of members of the armed forces and federal government employees (fiscal year 2001: $30.4 million).

Approximately $228 million was appropriated for Hawaii transportation initiatives for construction, equipment and services. Some $20.7 million will go to the City and County of Honolulu to reduce commuter traffic congestion and improve transit services, and Honolulu Bus Rapid Transit ($12 million) to implement the Honolulu Bus Rapid Transit 9-year project and an additional $8.7 million to City and County of Honolulu for the Middle Street Transit Center. The State of Hawaii will receive an estimated $29 million from the Federal Transit Administration and $142 million from the Federal Highway Administration in formula grants.

Other projects will support the U.S. Coast Guard ($7.2 million), improvements to roadways on federal lands ($6 million), improvements to the State of Hawaii's ferryboat infrastructure ($5.15 million), Sand Island Bridge ($5 million), Saddle Road ($4 million), the Rainbow Communications System Modernization ($3.1 million), Alien Species Action Plan ($3 million), Farrington Highway ($2 million), Sand Island Intermodal Cargo Tracking ($1 million) and continued funding for Kamuela, Hana, and Kalaupapa under the Essential Air Service (EAS) program.

Banks and Other Financial Institutions

As of June 30, 2001, total assets of all State-chartered financial institutions, including banks, savings and loan associations and industrial loan companies were reported at $23.6 billion, a 4.2% decrease from 2000. The four State-chartered banks accounted for $22.6 billion of such assets.

---

[2] President George W. Bush has signed both bills into law but the State details are not readily available.

Transportation

Because the State's population resides on seven islands, the State is dependent on fast, efficient, low-cost transportation, both interstate and intrastate.

Sea Transportation. The State is dependent on regular shipping service for overseas lifeline support. While nearly all visitors to the State arrive by air, surface transportation provides the State with the bulk of both its imported goods and delivery of exported local products. Overseas and inter-island cargo shipments for the fiscal years 1999, 2000 and 2001 amounted to 15.5 million short tons, 16.9 million short tons, and 17.2 million short tons, respectively.

The State has ten harbors to facilitate the movement of goods from the mainland, foreign and inter-island ports: Honolulu Harbor and Kalaeloa Barbers Point Harbor (Oahu), Kahului Harbor (Maui), Hilo Harbor and Kawaihae Harbor (Hawaii), Nawiliwili Harbor and Port Allen Harbor (Kauai), Kaunakakai Harbor (Molokai) and Kaumalapau Harbor (Lanai). The number of commercial vessels entering all ports was 8,350 in fiscal year 1999, 8,480 in fiscal year 2000 and 8,376 in fiscal year 2001.

Honolulu Harbor is the hub of the State's Statewide System of Harbors, where it serves as a major distribution point of overseas cargo to the neighbor islands and a primary consolidation center for export of overseas cargo. Overseas and inter-island cargo tonnage handled through the Honolulu Harbor was 7.5 million short tons in fiscal year 1999, 8.2 million short tons in fiscal year 2000 and 8.4 million short tons in fiscal year 2001. The harbors are continuously maintained through the issuance of appropriate special maintenance contracts to ensure the availability of safe and effective harbor facilities.

Air Transportation. The State operates and maintains fifteen airports at various locations within the State. The principal airport which provides facilities for overseas flights (i.e., other than inter-island flights within the State) is Honolulu International Airport (HNL) on the island of Oahu. HNL is located approximately five miles by highway from the center of the downtown area of Honolulu. It has four runways, two of which (12,000 feet and 12,300 feet) are among the nation's longest. Approximately 60 aircraft can be handled at one time at the terminal complex, including 36 wide-bodied aircraft. With 29 overseas gate positions, 18 inter-island and commuter positions and public parking stalls for 4,579 vehicles, HNL is the most important in the State airports system. The airfield at Barbers Point Naval Air Station became Kalaeloa Airport, a general aviation reliever airport for HNL, in July, 1999.

Kahului Airport on the island of Maui, Hilo International Airport (renamed from General Lyman Field) at Hilo, and Kona International Airport at Keahole both on the island of Hawaii and Lihue Airport on the island of Kauai, also service direct flights to and from the continental United States.

According to data from the Airports Council International, HNL is the 39th busiest air terminal in the world, ranking 23rd in the United States in total passengers serviced in 2000. In 2000, HNL recorded 345,771 aircraft operations.

Statewide, combined incoming and outgoing overseas air cargo decreased from 387,053 tons in 1999 to 340,132 tons in 2000. Statewide, combined overseas and intrastate air cargo, decreased from 525,421 tons in 1999 to 490,915 tons in 2000. Although of high unit value, air cargo still remains relatively insignificant compared with surface shipping.

The two major inter-island carriers, Aloha Airlines and Hawaiian Airlines, have announced their intent to merge. Any such merger will be subject to various regulatory and other obstacles, and the State cannot predict either the likelihood of its success or its potential effect on the economy of the State.

Land Transportation. In the State, three levels of government have authority to construct and maintain public highways, streets and roads. These levels of government are the State, the counties and various federal agencies. The State is served by approximately 4,455 linear miles of public highways, streets and roads administered by the Department of Transportation and the counties. An additional 138 miles of public highways, streets and roads open to the public in national parks and military reservations are the responsibility of various federal agencies, including the United States National Park Service and the military services.

The State Highway System, which is administered by the Department of Transportation, consists of 995 linear miles of roadways. The most important component of the State Highway System is the 55 miles of interstate system on Oahu, which includes Interstates H-1, H-2, H-3 and H-201.

Motor vehicle registration in 1991 was 920,124 vehicles, decreased to 908,738 vehicles in 1992; 903,550 vehicles in 1993; 898,008 vehicles in 1994; increased to 901,291 vehicles in 1995; 907,770 vehicles in 1996; decreased to 906,964 vehicles in 1997; increased to 915,753 vehicles in 1998; 929,474 vehicles in 1999; and 964,738 vehicles in 2000.

Education

The State operates a statewide public school system for elementary, intermediate, and high schools and colleges and universities. In the 2000-2001 school year, system enrollment totaled 183,520 in 261 public schools. The public education system at all levels (elementary, intermediate, high school, colleges and universities) is financed at the State level rather than the local level. This includes both capital outlays and costs of operation. Public school enrollment has been decreasing from the 1999-2000 and 2000-2001 school years due to a net increase in out-migration and declining birth rates. Within the total student count, the number of students in regular education has decreased, while the number of special education students has increased.

In the fall of 2000, 44,579 students attended State colleges and universities, 17,263 of them on the Manoa Campus of the University of Hawaii. The University of Hawaii Manoa Campus offers bachelors, masters, and doctorate degrees, as well as a certificate in teaching. The system of community colleges, within the University of Hawaii system, offers associate in arts and associate in science degrees and certificates, including certificates of achievement.

State Housing Programs

Since 1970, the State has undertaken a program to alleviate the shortage of housing in the State under a comprehensive housing law. The law recognizes that all phases of housing are related to one another and consequently attempts to cover all such phases, from construction through permanent financing, and also attempts to solve or mitigate the housing problem by using both the public and private sectors. To this end the State has undertaken, among other things, facilitating the development of real property and the construction of dwelling units thereon in partnerships with qualified developers and contractors. The State's participation in such partnerships has consisted of construction financing (interim financing), including land acquisition. Other state efforts include construction and permanent financing for developers of residential housing; development by the State itself of single and multifamily residential housing units on land owned by the State or on land purchased or to be purchased for such purpose or on land to be leased from others; and loans to qualified residents of the State who are qualified purchasers of affordable dwelling units.

The State also administers federal and state housing assistance programs for low-income families. Included are the management of low-rent public housing units, the administration of the Section 8 tenant-based housing assistance program and other federal and State programs intended to provide very low to low-income residents with safe, decent and sanitary housing.

The State housing programs are carried out by the Housing and Community Development Corporation of Hawaii (the "Corporation"). The Corporation is empowered to raise funds through the issuance of revenue bonds and to use such funds for housing purposes. The bonds are special obligations of the Corporation and do not impact the debt limit of the State, nor do the bonds constitute general obligations of the State.

APPENDIX B

FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

PART I

SELECTED FINANCIAL INFORMATION

(commences on page B-1)

PART II

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE

STATE OF HAWAII AS OF JUNE 30, 2001 AND

INDEPENDENT AUDITORS' REPORT

(commences on page B-17)

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX B

FINANCIAL INFORMATION ABOUT THE STATE OF HAWAII

PART I

SELECTED FINANCIAL INFORMATION

The statistical information presented by this Part I of Appendix B is the most current such information available to the State. Because such information becomes available at different times, the dates of such information, as presented herein, are not the same.

INFORMATION ABOUT INDEBTEDNESS

The following table sets forth the State's total indebtedness, including reimbursable general obligation bonds excludable for the purposes of calculating the constitutional debt limit.

SUMMARY OF TOTAL INDEBTEDNESS OF THE STATE OF HAWAII

GENERAL OBLIGATION BOND INDEBTEDNESS
As of July 1, 2001

General obligation bonds outstanding [1]		$3,227,332,410
Less excludable reimbursable general obligation bonds [2]		
Highways	$134,630,491	
Airports	507,975	
Harbors	697,193	
University of Hawaii	17,422,861	
Parking facilities	2,656,584	
Hawaiian Home Lands	1,746,708	
Subtotal excludable reimbursable general obligation bonds	$157,661,812	
Less all general obligation bonds maturing in the current year	$192,274,130	$ 349,935,942
Add instruments of indebtedness in excess of exclusion limit		37,082,247
Net general obligation bonds outstanding		$2,914,478,715

REVENUE BOND INDEBTEDNESS [3]
As of July 1, 2001

Revenue bonds outstanding:		
Airports:		
Airports system	$ 836,755,000	
Airports special facility	42,455,000	$ 879,210,000
Housing [4]		
Single family mortgage purchase	652,565,000	
Multifamily	161,758,000	814,323,000
Harbors:		
Revenue	215,675,000	
Special facilities revenue bond	16,500,000	232,175,000
Highway:		
Revenue		214,625,000
Hawaiian home lands		13,370,000
University revenue projects [5]		35,510,000
Total revenue bonds outstanding		$2,189,213,000

SPECIAL ASSESSMENT BONDS [6]
As of July 1, 2001

Special Assessment Bonds outstanding:	
Improvement district bonds	$ 5,960,000

SPECIAL PURPOSE REVENUE BOND INDEBTEDNESS [7]
As of July 1, 2001

Special Purpose Revenue Bonds outstanding:	
Health care facilities	$ 520,375,000
Utilities serving the general public	830,000,000
Industrial enterprises	28,081,250
Processing enterprises	8,000,000
Total special purpose revenue bonds outstanding	$ 1,386,456,250

---

1) *Does not include $300,000,000 principal amount of General Obligation Bonds of 2001, Series CV, and $156,750,000 principal amount of General Obligation Refunding Bonds of 2001, Series CW, delivered by the State on August 23, 2001.*
2) *See "**DEBT STRUCTURE—Exclusions**" and "**DEBT STRUCTURE—Reimbursement to State General Fund for Debt Service**" in Appendix A for exclusions and sources of reimbursement.*
3) *All revenue indebtedness is payable solely from the revenues derived from rates, rentals, fees and charges except for the revenue bonds issued for the airports system which are payable from both the revenues of the airports system derived from rates, rentals, fees and charges and from the aviation fuel tax. The Department of Transportation delivered $70,000,000 principal amount of Highway Revenue Bonds, Series 2001 on October 25, 2001.*
4) *In 1987, the Housing Finance and Development Corporation ("HFDC") was created to assume certain of the Hawaii Housing Authority's functions, including housing finance. Effective July 1, 1998, the functions and employees of the HFDC (as well as those of the Hawaii Housing Authority and the Rental Housing Trust Fund) were transferred to a newly created Housing and Community Development Corporation of Hawaii ("HCDCH"). The HCDCH is a public body and a body corporate and politic and is attached, for administrative purposes only, to the Department of Business, Economic Development and Tourism. The HCDCH succeeds to all of the rights and powers previously exercised, and all of the duties and obligations incurred by, the HFDC, the Hawaii Housing Authority and the Rental Housing Trust Fund. The HCDCH is a statewide public housing agency and, although the counties are authorized to perform certain functions with respect to housing, is the only housing agency in the State. The HCDCH delivered $3,405,000 Mortgage Revenue Installment Bond (Hale Hoaloha Apartments Project) on December 4, 2001.*
5) *The Board of Regents of the University of Hawaii (the "Board of Regents") delivered $18,665,000 University Revenue Bonds Refunding Series 2001B on December 19, 2001, to refund all previously outstanding revenue bonds of the Board of Regents, except for the Board of Regents University of Hawaii University System Revenue Bonds Series D, issued in 1972 (the "Series D Bonds"). The Board of Regents of the University of Hawaii also delivered $655,000 Series 2001A Bonds on December 19, 2001, which were exchanged for a like amount of all outstanding Series D Bonds.*
6) *All special assessment indebtedness is payable solely from receipts derived from assessments against the real property specially benefited from the sale of the bonds.*
7) *All special purpose revenue indebtedness is payable solely from receipts derived from payments by special purpose entities or persons under contract or from any security for such contract or special purpose revenue bonds.*

The following table presents a summary of the calculation of the State's constitutional debt limit as of July 1, 2001.

SUMMARY STATEMENT OF THE DEBT LIMIT OF THE STATE OF HAWAII

NET GENERAL FUND REVENUES FOR THE STATE OF HAWAII FOR THE PRECEDING THREE FISCAL YEARS	1998-1999	1999-2000	2000-2001
Total General Fund revenues exclusive of Grants from the federal government	$3,286,272,137	$ 3,284,124,155	$ 3,441,577,680
Less:			
Receipts in reimbursement of any indebtedness that is excluded in computing the total outstanding indebtedness of the State Agencies	32,015,451	27,240,304	29,212,144
Net General Fund revenues	$ 3,254,256,686	$ 3,256,883,851	$ 3,412,365,536
Sum of net General Fund revenues for preceding three fiscal years	$ 9,923,506,073		
Average of preceding three fiscal years	$ 3,307,835,358		
18½% of average net General Fund revenues of the three preceding years ended June 30, 1999, 2000, and 2001	$ 611,949,541[(1)]		

(1) The greatest amount of principal and interest payable in any fiscal year on outstanding general obligation indebtedness as of February 1, 2002, and on the Bonds, after exclusions therefrom permitted by the Constitution, is $569,453,991 in the fiscal year ending June 30, 2009.

GENERAL OBLIGATION BONDS OUTSTANDING AS OF FEBRUARY 1, 2002

	Principal Amount	Balance	% of Total
Reimbursable General Obligation Bonds [(1)]			
From State Special Funds for			
Highways	$ 122,497,813		
Airports	449,638		
Commercial Harbors	606,661		
Small Boat Harbors [(2)]	9,579,181		
Hawaiian Home Lands	1,596,551		
University of Hawaii	17,422,862		
Parking Facilities	2,227,664		
Waiahole Water System [(2)]	8,500,000		
Convention Center[(2)]	292,105,011		
Total for Special Funds	454,985,381		
Total Reimbursable General Obligation Bonds		$ 454,985,381	13.54%
Non-Reimbursable General Obligation Bonds			
From State General Funds for various purposes	$2,904,962,589		
Total Non-reimbursable General Obligation Bonds		$2,904,962,589	86.46%
Total General Obligation Bonds Issued and Outstanding		$3,359,947,970	100.00%

(1) See discussion above concerning sources of reimbursement, including taxes. The figures in this table should not be taken as an indication that in all instances the reimbursement to the General Fund will in fact be made or that such reimbursement will be made in whole.

(2) Not excludable for debt limit purposes.

SUMMARY OF DEBT SERVICE
AS OF DECEMBER 31, 2001

The following table sets forth a summary of the debt service payable on all outstanding general obligation bonded indebtedness of the State of Hawaii as of December 31, 2001 (including bonds to be refunded) and on the Bonds. Further detail concerning the State's various outstanding general obligation indebtedness is set forth in Appendix D hereto.

							Debt Service on Series CX and CY [3]		
Fiscal Year Ending June 30	Total Principal Outstanding As of December 31, 2001	Total Principal Payable	Total Interest Payable	Total Debt Service Payable	Less Amounts Reimbursable to General Fund [1]	Net Debt Service Payable	Total Principal Payable	Total Interest Payable	Total Debt Service Payable [2]
2002	3,429,292,970	105,415,000	90,987,920	196,402,920	29,335,328	167,067,592			
2003	3,323,877,970	236,580,151	181,048,670	417,628,821	73,676,160	343,952,661		27,582,343	27,582,343
2004	3,087,297,819	257,764,208	169,551,720	427,315,929	67,750,826	359,565,103		29,729,471	29,729,471
2005	2,829,533,611	269,890,429	157,132,020	427,022,449	66,136,558	360,885,891		29,729,471	29,729,471
2006	2,559,643,181	268,089,333	152,981,060	421,070,393	61,943,650	359,126,743		29,729,471	29,729,471
2007	2,291,553,849	276,194,530	141,117,035	417,311,565	60,368,739	356,942,826	39,635,000	29,729,471	69,364,471
2008	2,015,359,319	277,600,308	129,175,594	406,775,901	54,656,282	352,119,619	41,355,000	28,009,159	69,364,159
2009	1,737,759,012	278,029,472	116,865,091	394,894,563	51,762,712	343,131,851	43,360,000	26,001,001	69,361,001
2010	1,459,729,540	201,239,540	88,981,231	290,220,771	35,942,542	254,278,229	45,355,000	24,004,101	69,359,101
2011	1,258,490,000	203,775,000	64,237,159	268,012,159	34,709,699	233,302,460	47,660,000	21,699,914	69,359,914
2012	1,054,715,000	156,855,000	53,771,210	210,626,210	26,770,190	183,856,020	50,195,000	19,171,289	69,366,289
2013	897,860,000	162,915,000	45,177,222	208,092,222	22,005,834	186,086,388	52,860,000	16,502,096	69,362,096
2014	734,945,000	151,815,000	36,540,887	188,355,887	11,821,098	176,534,789	55,850,000	13,512,746	69,362,746
2015	583,130,000	144,700,000	28,598,489	173,298,489	10,397,784	162,900,706	59,005,000	10,357,356	69,362,356
2016	438,430,000	116,085,000	20,671,851	136,756,851	6,302,852	130,453,999	16,325,000	7,007,469	23,332,469
2017	322,345,000	112,095,000	15,394,773	127,489,773	9,838,036	117,651,737	17,220,000	6,114,844	23,334,844
2018	210,250,000	75,720,000	9,669,938	85,389,938	778,763	84,611,174	18,155,000	5,176,459	23,331,459
2019	134,530,000	34,225,000	6,204,648	40,429,648	779,687	39,649,961	19,065,000	4,268,709	23,333,709
2020	100,305,000	36,135,000	4,294,777	40,429,777	780,532	39,649,244	20,015,000	3,315,459	23,330,459
2021	64,170,000	38,095,000	2,335,048	40,430,048	781,226	39,648,822	21,040,000	2,294,694	23,334,694
2022	26,075,000	26,075,000	677,481	26,752,481	0	26,752,481	22,195,000	1,137,494	23,332,494

(1) *These figures show debt service on outstanding general obligation bonds of the State issued for certain activities, undertakings, improvements and systems of the State where the payment of such debt service from the General Fund is required by statute to be reimbursed to the General Fund from the respective income, revenues or user taxes pertaining to the particular activity, undertaking, improvement or system and regardless of whether excludable under the provisions of the Constitution when determining the power of the State to incur indebtedness. Consequently, the amount of reimbursement to the General Fund in the table above is greater than the excludable reimbursement under the Constitution. For example, of the $73,676,160 amount reimbursable to the General Fund in 2003, only $28,175,987 is an excludable reimbursement for purposes of the debt limit calculation under the Constitution. See Debt Structure - Reimbursement to the State General Fund for Debt Service in Appendix A for the sources of reimbursement, including taxes.*

(2) *Net of accrued interest on Bonds.*

(3) *As of the date of delivery thereof.*

SCHEDULE OF RATIO OF NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
(Amounts in thousands except ratio data)

Fiscal Year	Population [1]	General Obligation Bonded Debt [2&3]	Less Debt Service Monies Available [2]	Net General Obligation Bonded Debt	Net General Obligation Bonded Debt Per Capita
2001	1,226	$3,225,635	$110	$3,225,525	$2,631
2000	1,194	3,278,479	258	3,278,221	2,746
1999	1,198	3,166,880	223	3,166,657	2,670
1998	1,193	3,363,517	338	3,363,179	2,824
1997	1,192	3,075,862	435	3,075,427	2,580
1996	1,184	2,841,069	240	2,840,829	2,399
1995	1,179	2,901,651	165	2,901,486	2,461
1994	1,179	2,834,234	46	2,834,188	2,404
1993	1,178	2,726,654	534	2,726,120	2,314
1992	1,150	2,281,875	66	2,281,809	1,984
1991	1,126	2,222,324	166	2,222,158	1,974
1990	1,128	1,967,556	68	1,967,488	1,744

1) Source: Hawaii State Department of Business, Economic Development and Tourism.
2) Source: Hawaii State Department of Accounting and General Services, Accounting Division.
3) Excludes Enterprise Funds and Component Limit-University Funds General Obligation Bonds.

Certificates of Participation

In November 1998, the State executed a Lease Purchase Agreement related to the issuance of $54,850,000 in certificates of participation (COPS), the proceeds of which were used to purchase a state office building in Kapolei, and in December 2000, the State executed a second Lease Purchase Agreement for the issuance of $23,140,000 in COPS, the proceeds of which were used to purchase the No. 1 Capitol District State Office Building in Honolulu. Both buildings are located on the island of Oahu. The COPS are secured by rental payments payable from lawfully available funds of the State, including the State's general fund. The rental payments do not constitute an obligation for which the State has levied any form of taxation. The COPS do not constitute an indebtedness of the State or any political subdivision thereof within the meaning of the Constitution or any statute of the State.

INVESTMENT OF STATE FUNDS

Cash Management Program Policy

The investment policies of the State's cash management program are: (a) Safety: To safeguard State funds by securing cash, personnel and facilities and requiring full collateralization of State deposits; (b) Liquidity: To ensure the availability of funds to meet State expenditures by the timely forecasting of cash requirements and the selection of securities that can be promptly converted into cash with a minimum risk in principal; and (c) Yield: To maximize interest earnings on State investments by investing funds in excess of immediate needs to the maximum extent possible.

Securities in Which State Funds May Be Invested

The General Fund, the various Special Funds and other funds are held in the State Treasury. The moneys held in the State Treasury, which in the judgment of the Director of Finance are in excess of the amounts necessary to meet the immediate requirements of the State, are invested in securities prescribed in Section 36-21, HRS. The securities in which State funds may be invested include the following: (a) U.S. Treasury obligations, including Treasury bills, notes and bonds; (b) obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest; (c) time certificates of deposit in federally insured financial institutions; (d) interest bearing accounts with federally insured financial institutions; (e) repurchase agreements with federally insured banks and savings and loan associations; (f) student loan resource securities with a triple A rating;

(g) commercial paper with at least an A1/P1 rating; (h) bankers' acceptances with at least an A1/P1 rating; and (i) money market mutual funds which invest solely in U.S. Treasury obligations or obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest. Section 36-21, HRS, prohibits the State from investing in securities which require the State to make any swap, counter or other payments other than the original purchase price plus accrued interest.

In the investment of State funds, it is the policy of the State to give due regard to depositories doing business within the State. This policy takes into account the beneficial effects to the State of using local depositories. Deposits are allocated among local financial institutions based upon the yield offered on investments and their ability to fully collateralize such investments.

As of December 31, 2001, 52% of the State's investment portfolio consisted of repurchase agreements with banks, 7% consisted of time certificates with banks, 22% consisted of student loan resource securities with a triple A rating, and 19% consisted of Federal Agency Securities.

Safety of Public Funds

All State funds deposited with financial institutions are deemed, under State law, to be deposited in the State Treasury. Except for that portion of any deposit which is insured by an agency of the federal government, e.g., the Federal Deposit Insurance Corporation (FDIC), all deposits of State funds must be fully collateralized by the depository with securities deposited with the Director of Finance as provided in Section 38-3, HRS. Pursuant to the authority granted the Director of Finance under Section 38-3, the valuation policy for securities pledged as collateral for the protection of State deposits is 90% of the outstanding balance of mortgage-backed pass-through certificates, i.e., Collateralized Mortgage Obligations backed by Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) securities, 100% of letters of credit issued by the Federal Home Loan Bank, and 95% of par or face value of all other securities accepted by the State for protection of State deposits.

With respect to the types of securities pledged as collateral, Section 38-3, generally requires such securities to be investment grade financial instruments with a high degree of liquidity or marketability. Accordingly, the State will not accept, as collateral, derivative products or other securities which move inversely to the general level of interest rates. Collateralized mortgage obligations which do not pass the federal Financial Institutions Examination Council test for high-risk securities are also unacceptable as collateral for State deposits.

The collateral pledged by depositories is monitored by the Director of Finance on a computerized system, which determines the adequacy of the amount of collateral pledged by depositories on a daily basis. Approximately 70% of the securities used to collateralize repurchase agreements are marked to market regularly.

The State utilizes a uniform repurchase agreement in all such transactions. Such form requires sellers to mark purchased securities to market on a monthly basis, or more frequently at the State's request. Such form further requires sellers to increase the collateral securities in the State's account to maintain market value of the purchased securities in an amount equal to or greater than the original purchase price.

Investment Yield

Cash positions of State moneys in depositories are reviewed at the beginning of each work day. A determination is made as to the amount of moneys needed to meet payment of State obligations, e.g., payroll, debt service, vendor and contract payments. Any amounts in excess of those requirements are then committed to investment to maximize interest income to the State. Interest earned on moneys in the State Treasury which are requested to be invested by a special fund agency are credited to the special fund agency. All investments of the State are made by the Director of Finance. The length or term of an investment is determined by the cash flow requirements of the particular program and the general direction of interest rates.

For the six months ended December 31, 2001, the State earned $18.1 million on its General Fund investments. This amount represents an average return on investment for the General Fund of 5.26%.

SELECTED FINANCIAL STATEMENTS

The following is the balance sheet of the General Fund ending each June 30 from 1997 to 2001. Following thereafter is the statement of revenues and expenditures of the General Fund for each such fiscal year including the statement of revenues and expenditures for the fiscal year ended June 30, 2000. See also the schedules relating to the General Fund accompanying the General Purpose Financial Statements from the State's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2001 in Part II of Appendix B.

The data set forth in the balance sheets and other financial statements have been prepared by the Comptroller of the State. The General Fund is presented and reported using the modified accrual basis of accounting. Under such basis, revenues are recorded when collected in cash except for (a) revenues susceptible to accrual, i.e., measurable and available and (b) revenues received prior to the period of benefit. Revenues for which receivables have been recorded (and other non-cash assets generally) are fully reserved until such time as they are converted to cash.

Expenditures are recorded at the time vouchers for payment are filed with the Comptroller. At the end of a fiscal year, existing liabilities for which payment is due are vouchered and recorded as expenditures as of the end of the fiscal year. Other liabilities for which payment is not due, and obligations in the form of open purchase orders, are recorded as encumbrances at the end of a fiscal year and are not recorded as expenditures until the encumbrances are subsequently liquidated.

General fixed assets purchased or constructed are recorded initially as expenditures and are subsequently reflected at cost in the General Fixed Assets Account Group. Depreciation on general fixed assets is not recorded in the general accounting records.

BALANCE SHEET OF THE GENERAL FUND
OF THE STATE OF HAWAII
As of June 30

(AMOUNTS IN THOUSANDS)

	1997	1998	1999	2000	2001
ASSETS:					
Cash	$ 6,137	$ 9,116	$ 353,030	$323,317	$ 217,775
Advances to other funds	17	17	17	18	---
Due from other funds	129,300	111,315	99,916	89,916	206,878
Due from Component Units	6,000	6,000	6,000	6,000	6,000
Receivables					
Taxes	229,808	224,847	229,751	233,988	276,900
Notes	678	617	593	520	484
Other	149	148	198	188	161
Total receivables	230,635	225,612	230,542	234,696	277,545
Investments	260,230	336,663	-0-	65,115	265,025
TOTAL ASSETS	632,319	688,723	689,505	$719,062	973,223
LIABILITIES AND FUND EQUITY					
Liabilities:					
Cash overdraft	$ ---	$ ---	$ ---	---	$ ---
Vouchers payable	62,035	51,419	51,215	43,562	82,226
Other accrued liabilities	19,800	50,459	112,670	54,655	53,518
Due to other funds	55,440	110,338	223	258	6,310
Due to Component Units	18,713	7,857	11,051	4,858	9,828
Deferred revenue	---	---	---	---	16,000
TOTAL LIABILITIES	155,988	220,073	175,159	103,333	167,882
FUND EQUITY:					
Reserves:					
Unrealized receivables	802	741	717	634	536
Encumbrances	136,006	149,940	145,716	141,191	195,549
Unencumbered allotments	7,023	7,157	7,954	7,899	8,667
Total reserves	143,831	157,838	154,387	149,724	204,752
Unreserved fund balance:					
Designated for future expenditures	21,658	10,203	28,068	33,836	74,235
Undesignated	310,842	300,609	331,891	432,169	526,354
Total fund equity	476,331	468,650	514,346	615,729	805,341
TOTAL LIABILITIES AND FUND EQUITY	$ 632,319	$ 688,723	$ 689,505	$ 719,062	$ 973,223

REVENUES AND EXPENDITURES OF THE GENERAL FUND
OF THE STATE OF HAWAII
(FOR THE FISCAL YEARS SHOWN)
(AMOUNTS IN THOUSANDS)

	1996-1997	% of Total	1997-1998	% of Total	1998-1999	% of Total	1999-2000	% of Total	2000-2001	% of Total
REVENUES:										
General excise tax	1,429,589	47.69	$ 1,416,584	45.42	$ 1,447,994	45.49	$ 1,534,288	47.82	1,626,486	47.46
Income tax-corporation	49,933	1.67	50,542	1.62	43,201	1.36	61,377	1.91	73,857	2.16
Income tax-individual	973,055	32.46	1,077,844	34.56	1,067,080	33.52	1,070,189	33.36	1,113,239	32.48
Service companies tax	114,364	3.82	120,326	3.86	121,143	3.80	119,505	3.72	134,583	3.93
Liquor licenses and taxes	38,347	1.28	38,894	1.25	38,508	1.21	39,000	1.22	37,783	1.10
Tobacco licenses and taxes	36,427	1.21	36,098	1.16	42,281	1.33	42,341	1.32	55,074	1.61
Insurance premiums tax	75,426	2.52	87,140	2.79	52,629	1.65	68,598	2.14	72,113	2.10
Inheritance and estate tax	22,169	0.74	19,645	0.63	28,738	0.90	22,784	0.71	17,541	0.51
Banks & financial corporation tax	12,607	0.42	15,546	0.50	9,772	0.31	4,557	0.14	(2,794)	(.08)
Transient accommodations tax	5,227	0.17	5,295	0.17	2,495	0.08	—*	—*	33,849	0.99
Conveyance tax	3,467	0.12	4,136	0.13	5,349	0.17	6,357	0.20	7,174	0.21
Total taxes	2,760,611	92.10	2,872,050	92.09	2,859,190	89.82	2,968,996	92.54	3,168,905	92.47
Charges for current service and Other revenues	236,946	7.90	246,904	7.91	324,178	10.18	239,381	7.46	258,132	7.53
TOTAL REVENUES	$2,997,557	100.00	$3,118,954	100.00	$3,183,368	100.00	$3,208,377	100.00	$3,427,037	100.00
EXPENDITURES:										
General government	$ 378,751	12.11	$ 395,978	12.48	$ 454,072	14.00	$ 413,057	13.20	$ 432,668	13.26
Public safety	125,775	4.02	138,923	4.38	152,495	4.70	150,857	4.82	149,875	4.59
Conservation of natural resources	24,320	0.78	24,908	0.78	27,742	0.85	22,945	0.73	23,028	0.71
Health	226,018	7.22	233,844	7.37	293,327	9.04	290,858	9.29	307,262	9.41
Welfare	529,372	16.92	527,025	16.61	516,070	15.91	510,459	16.31	523,820	16.05
Education:										
Lower and others	756,041	24.16	798,806	25.17	842,147	25.96	877,923	28.05	886,526	27.16
Culture-recreation	30,504	0.98	30,652	0.96	29,416	0.91	32,952	1.05	32,437	0.99
Urban redevelopment & housing	1,406	0.04	1,586	0.05	1,474	0.05	1,328	0.04	1,295	0.04
Economic development $ assistance	74,611	2.38	60,991	1.92	45,545	1.40	29,270	0.94	42,429	1.30
Intergovernmental expenditures	2,986	0.10	250	0.01	165	0.01	—	—	25	
Retirement & pension contribution	225,511	7.21	222,426	7.01	159,043	4.90	84,609	2.70	90,765	2.78
Capital outlay	3,982	0.13	2,505	0.08	750	0.02	392	0.01	23,497	0.72
Miscellaneous	13,220	0.42	20,914	0.66	20,399	0.63	3,382	0.11	8,115	0.25
Transfers to:										
Special Revenue Funds	11,642	0.37	14,110	0.44	20,030	0.62	18,720	0.60	17,714	0.54
Debt Service Funds	355,851	11.37	327,352	10.31	321,436	9.91	314,597	10.05	307,326	9.42
Trust and Agency	—	—	—	—	—	—	—	—	150	0.00
Enterprise Funds:										
Component Units:										
Hospital Funds	12,000	0.38	12,912	0.41	8,000	0.25	28,250	0.90	13,000	0.40
Housing Funds	7,419	0.24	6,560	0.21	7,596	0.23	7,258	0.23	6,994	0.21
University Funds	349,322	11.17	353,893	11.15	344,234	10.61	343,445	10.97	397,346	12.17
TOTAL EXPENDITURES	$3,128,731	100.00	$3,173,635	100.00	$3,243,941	100.00	$3,130,302	100.00	$ 3,264,272	100.00

* From July 1, 1994 through December 31, 1998, 4.166% of the Transient Accommodations Tax (TAT) revenues was distributed to the general fund. Act 156, SLH 1998 redirected the TAT to other recipients: 44.8% to the counties, 17.3% to the Convention Center, and 37.9% to the Tourism Special Fund. On June 30, 2000, the Convention Center Capital and Operations Special Fund ceased to exist, leaving the17.3% Convention Center share to be distributed to the general fund.

REVENUE PROJECTIONS; CERTAIN TAX COLLECTIONS

Introduction

The Constitution requires that there be established by law a Council on Revenues to prepare revenue estimates of the State government and to report such estimates to the Governor and the Legislature. The revenue estimates serve as the basis for the Governor's budget preparation and the Legislature's appropriation of funds and enactment of revenue measures. If the Council's latest revenue estimates are not used by the Governor or the Legislature for budget preparation or appropriations, respectively, then the party not using the latest estimates must publicly state the reasons for using a differing revenue estimate. Act 278, Session Laws of Hawaii 1980, provided for the establishment of such a council consisting of seven members, with three members appointed by the Governor and two members each appointed by the President of the Senate and the Speaker of the House. The Council reports its estimates and revisions each June 1, September 10, January 10, and March 15. The Council also revises its estimates when it determines that such revisions are necessary or upon request of the Governor or the Legislature. The Council's estimates are used by the Department of Budget and Finance in formulating the State Multi-Year Program and Financial Plan, the Executive Budget, and the Executive Supplemental Budget for submission to the Legislature.

In July 1999, the Department of Taxation reported that actual fiscal year 1999 general fund tax revenues were $2,854.2 million, or .2% more than fiscal year 1998 collections. This equates to $9.2 million less tax revenues for fiscal year 1999 than projected by the Council.

In September 1999, the Council increased the fiscal year 2000 tax revenue growth rate from –1.6% to –1.1% based on increases in construction, visitor arrivals and total personal income.

In December 1999, the Council retained its fiscal year 2000 tax revenue growth rate of -1.1%. In March 2000, the Council increased its fiscal year 2000 tax revenue growth rate to 0% because the Council felt that the economy was growing faster than earlier anticipated. In May 2000, the Council again increased its fiscal year 2000 tax revenue growth rate to 3.0% to include the impact of increases in income from capital gains as well as the faster than expected growth in real estate sales. In September 2000, the Council reported that actual fiscal year 2000 tax revenues were $2,972.4 million. This is $32.6 million greater than the Council's May 2000 projection and reflects a growth rate of 4.1% for fiscal year 2000 (compared to the Council's 3.0% projected growth).

The Council also increased its fiscal year 2001 tax revenue growth rate from 3.7% to 6.0% to reflect the impact of: 1) the termination of the transfer of 17.3% of the transient accommodation taxes from the general fund to the Convention Center Capital and Operations Special Fund beginning July 1, 2000; 2) increased collections resulting from the Department of Taxation's new Integrated Tax Information Management System; and 3) improvements in the economy; e.g., improvements in the real estate, construction, and visitor industries.

In December 2000, the council kept its growth rate of general fund tax revenues for fiscal year 2001 at 6.0% and revised slightly upward its forecast for subsequent fiscal years.

In March 2001, the Council retained its December 2000, general fund tax revenue growth rates.

In May 2001, the Council increased its growth rate for fiscal year 2001 from 6.0% to 6.4%, but revised slightly downward its forecast for subsequent fiscal years by .4% each year; i.e., fiscal year 2002 decreased from 5.5% to 5.1%, Fiscal Years 2003-2006 decreased from 5.3% to 4.9%, and fiscal year 2007 decreased from 5.4% to 4.9%. (By comparison, the actual growth rate for fiscal year 2000 was 6.2%.) The Council expects that lower economic growth rates for the United States and Japan are being offset by the upward cycle of the construction industry, lower interest rates, and the current strong growth trends in employment and wages. The Council's projections do not include the impact of any tax law changes from the 2001 Legislative session because the Council decided to wait until it could examine the impact of all enacted tax law changes.

In September 2001, the Council decreased its general fund tax revenue growth rate for fiscal year 2002 from 5.1% to 4.1%, primarily to reflect the impact of Act 64, SLH 2001, which transfers to the counties a portion of public service company taxes imposed by the State on public utilities. This decrease resulted in a projected reduction of general fund revenues of about $37 million annually. The Council also decreased the growth rate for fiscal year 2003 from 5.4% to 5.2% and increased slightly the growth rates for fiscal years 2004-2007. The Council expected that declines in the growth rates of the construction and the visitor industries would be offset by the federal Economic Growth and Tax Relief Act of 2001, lower state individual income tax rates, and increases in wages in the government sector, including the military.

In November 2001, the Council convened a special meeting to consider the impact of the events of September 11. The Council decreased its growth rate for fiscal year 2002 from 4.1% to –0.7% and slightly decreased its growth rates for fiscal years 2003-2007. As a result, tax revenue projections decreased $151.8 million in fiscal year 2002, $162.8 million in fiscal year 2003, $184.2 million in fiscal year 2004, $207.7 million in fiscal year 2005, $228.7 million in fiscal year 2006, and $251.6 million in fiscal year 2007. The Council believed that the impact of the events of September 11 on the visitor industry would be partially offset by payments of unemployment insurance, lower federal and state tax rates, lower automobile and mortgage interest rates, and recent tax incentives on housing and hotel remodeling. The Council estimated that the number of visitor arrivals would decline by 13.3% in fiscal year 2002 but as the visitor industry recovered, the number of visitor arrivals would increase by 12.8% in fiscal year 2003 and 3.5% in fiscal year 2004.

In January 2002, the Council retained its November 2001 general fund tax revenue growth rates.

General Fund Financial Plan

Set forth below are the actual budgetary General Fund resources, expenditures, and balances for the fiscal years ended June 30, 2000 and June 30, 2001, and estimates for the fiscal year ending June 30, 2002.

GENERAL FUND FINANCIAL PLAN 2000-2002
(Millions of Dollars)

	Actual 2000	Actual 2001	Estimated 2002
Resources			
Tax Revenues [1]	$2,964.9	$3,142.1	$3,134.8
Non-tax Revenues	291.6	272.3	321.3
Judicial Branch Revenues	27.6	27.2	27.7
Other Revenue			
Sources/Adjustments	---	---	1.4
Total Resources	$3,284.1	$3,441.6	$3,485.2
Expenditures:			
Executive			
Operating	$3,095.2	$3,255.9	$3,511.0[2]
Capital Investment	---	0.0	0.0
Total Executive	$3,095.2	$3,255.9	$3,511.0[2]
Legislative	21.8	23.3	22.7
Judicial	95.1	97.7	106.4
OHA and Counties	2.5	2.5	2.6
Appropriation Lapses[3]	(13.6)	(14.8)	0.0
Total Expenditures	$3,201.0	$3,364.6	$3,642.7
Resources over Expenditures	83.1	77.0	(157.5)
Carry-over Balance	189.0	272.1	349.1
Ending Balance [4]	272.1	349.1	191.6

1) *Reflects actual fiscal year 2000 and 2001 tax revenue collections as reported by the Department of Accounting and General Services.*
2) *Includes the following major items:*
   Collective bargaining *103.8*
   Lapses .... *(50.0)*
3) *Not included as an item in the financial statements under "FINANCIAL STATEMENTS" in Part 1 of this Appendix B nor in the projections of the Council on Revenues.*
4) *Fund balances do not include any Rainy Day Fund balances.*

Note: Totals may not add due to rounding.
Source: Department of Budget and Finance, January 2002.

The actual fiscal year 2000 fund balance of $272.1 million compares to a projected fund balance of $212.3 million that was reported by the State in September 1999. The primary reasons for the difference are: 1) tax revenues, which were projected to decrease by $32.6 million, increased by $111 million; and 2) emergency appropriations of $60 million were not previously projected.

The actual fiscal year 2001 fund balance of $349.1 million compares to a projected fund balance of $352.4 million that was reported by the State in June 2001. Revenues were $16 million lower than projected, primarily due to lower federal reimbursements for public welfare and a delay in the transfer of litigation settlement funds. Expenditures were also lower than projected primarily due to higher lapses.

As a result of the Council's lowered tax revenue projections in November 2001, the Executive budget was reevaluated. A 1% restriction (reduction in spending authority) was imposed on fiscal year 2002 expenditures, and a net reduction of $21.1 million is being proposed for fiscal year 2003.

In the general fund financial plan, fiscal year revenues are recognized based on receipt while fiscal year expenditures are recognized when appropriations are expended in that year or encumbered. At the end of the fiscal year, encumbrances are not lapsed but are considered to be expenditures. Additionally, the Department of Education, by law, is allowed to carry over up to five percent of its unencumbered appropriations to the following fiscal year. For example, $33.5 million carried over from fiscal year 2000 to fiscal year 2001 by the Department of Education did not lapse and was considered to be expended in fiscal year 2000.

General Fund Tax Revenues

Receipts of taxes constitute the largest portion of General Fund revenues for the fiscal year ending June 30, 2001, and represent about 91% of the total General Fund revenues. Set forth below are the actual General Fund tax revenues for the fiscal years ended June 30, 2000 and June 30, 2001 and estimated tax revenues for the fiscal year ending June 30, 2002, based on the Council on Revenues' January 2002 projection.

GENERAL FUND TAX REVENUES*
(Thousands of Dollars)

	Actual 1999-2000	Actual 2000-2001	Estimated 2001-2002
General Excise and Use	$1,536,276	$1,640,039	$1,658,384
Income—Individual	1,064,303	1,104,819	1,125,681
Income—Corporation	68,215	60,793	64,367
Public Service Company	119,505	134,583	138,471
Insurance Premiums	68,659	72,113	73,885
Tobacco & Licenses	42,341	55,074	64,067
Liquor & Permits	39,000	37,783	36,913
Banks & Other Financial Corp.	7,057	(294)	2,994
Inheritance & Estate	22,784	17,541	20,345
Miscellaneous	6,710	7,030	6,509
Transient Accommodation	168,568	177,164	155,573
TOTAL BEFORE ADJUSTMENTS	$3,143,418	$3,306,645	$3,347,279
GROWTH RATE	5.0%	5.2%	1.2%
ADJUSTMENTS**	(171,068)	(148,985)	(212,460)
NET REVENUES	$2,972,350	$3,157,660	$3,134,819
GROWTH RATE	4.1%	6.2%	(0.7%)

* Reports tax receipts before adjustments.

** Adjustments include tax receipts (e.g. transient accommodation, public service company, and banks and other financial corporations taxes) allocated to other funds.

Actual Collections and Distributions

Set forth below is an unaudited statement of State tax collections and distributions for the first six months of the fiscal year ending June 30, 2002, and for the first six months of the preceding fiscal year ended June 30, 2001, both as reported by the State Director of Taxation. The collections from all sources for the first six months of the fiscal year ending June 30, 2002 totaled $1,764.8 million, representing a 0.5% decrease from collections for the first sixth months of the preceding fiscal year ended June 30, 2001. The General Fund tax collections for the first six months of the fiscal year ending June 30, 2002 were $1,528.2 million, representing an 0.9% increase over the General Fund tax collections for the first six months of the preceding fiscal year ended June 30, 2001.

State Tax Collections—Source of Revenue	July 1 through December 31 2001-2002	July 1 through December 31 2000-2001
Banks/Financial corporations(1)	2,247,432	(870,472)
Conveyances(1)	4,774,475	5,056,760
Employment security contributions	55,335,302	77,692,663
Fuel	69,412,295	70,133,643
General excise, license and registration fees	254,509	261,742
General excise and use (1)	816,075,779	795,350,808
Income—corporations:		
Declaration of estimated taxes	30,966,024	34,481,895
Payment with returns	8,394,896	2,972,379
Refunds	(38,289,566)	(23,859,236)
Income—individuals:		
Declaration of estimated taxes	66,500,369	69,078,708
Payment with returns	17,334,081	18,343,353
Withholding tax on wages	507,894,518	505,503,147
Refunds	(41,556,382)	(38,250,154)
Inheritance and estate	10,182,150	5,775,796
Insurance premiums	34,771,825	32,296,568
Liquor and permits	20,106,346	18,493,405
Motor Vehicle Tax/Fees, etc. (2)	41,380,224	40,864,553
Public Service companies	45,600,311	54,010,733
Tobacco and licenses	32,501,050	22,928,592
Transient Accommodations Fees	4,061	4,290
Transient Accommodations Tax (1)	80,950,359	83,512,784
All other (3)	8,642	100,412
Total	1,764,848,699	1,773,882,368

(1) Gross collection - does not reflect allocation to Special Funds.

(2) Includes State Motor Vehicle Weight Tax, Registration Fees, Commercial Driver's License, Periodic Motor Vehicle Inspection Fees, Rental Vehicle Registration Fees and Rental Vehicle Surcharge Tax.

(3) Includes fuel retail dealer permits, penalties and interest on fuel tax.

State Tax Collections—Distribution	July 1 through December 31 2001-2002	July 1 through December 31 2000-2001
State General Fund	1,528,241,356	1,514,219,283
State Highway Fund	76,478,095	76,255,928
State Airport Fund	1,694,019	1,922,705
Boating Special Fund	668,385	673,013
Environmental Fund	879,798	909,589
Bond Reserve Fund	62,936	0
Compliance Resolution Fund	1,040,874	0
Election Campaign Fund	0	0
Employment Security Fund	42,528	10,908
Rental Housing Fund	55,335,302	77,692,663
Natural Area Reserve Fund	1,193,619	1,264,190
Tourism Special Fund	30,680,186	31,651,345
Convention Center Fund	0	0
Subtotal	1,697,510,716	1,705,231,720
Distributions to Counties*:	67,337,983	68,650,647
Fuel tax		
Transient Accommodation Tax	36,265,761	37,413,727
Counties Total		
Total	$1,764,848,699	$1,773,882,368

* *Refers to distributions received by the Counties from the specified taxes.*

Source: State Department of Taxation: Tax Research and Planning.

STATE EMPLOYEES' RETIREMENT SYSTEM

A description of the State's Retirement System for employees of the State and the counties is provided under "EMPLOYEE RELATIONS; STATE EMPLOYEES' RETIREMENT SYSTEM State Employees' Retirement System" in Appendix A. The following statistical information addresses the entire Retirement System, including both State and county employees.

The System issues a Comprehensive Annual Financial Report that may be obtained by writing to the Employees' Retirement System of the State of Hawaii, 2001 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Employer Contribution Rate

The schedule which follows shows the total actuarially determined employer contribution rate for all employees based on the last six annual actuarial valuations.

Actuarial Valuation as of June 30	Total Calculated Employer Contribution Rate for All Employees (% of total payroll)
1996	7.76*
1997	1.11**
1998	0.38***
1999	7.66***
2000	9.22***
2001	10.20****

* *Reflects Act 327 of 1997 which amended Section 88-122, HRS.*

** *Reflects Acts 151 of 1998 and 327 of 1997 which amended Section 88-122, HRS.*

*** *Reflects Acts 216 of 2000, 100 of 1999, 151 of 1998 and 327 of 1997 which amended Sections 88-107 & 88-122, HRS.*

**** *Reflects Acts 104 of 2001 which amended Section 88-122, HRS.*

As seen above, the calculated total employer contribution rates as a percentage of total payroll have fluctuated during the last five actuarial valuations. The decreases in 1997 and 1998 are attributed to the favorable investment experience for the year (refunded immediately to the employers per Act 100/1999) and the extension of the amortization period for funding the remaining Early Incentive Retirement Program ("EIRP") costs under Act 216/2000. The increase in 1999 is due to the reduction in the excess investment earnings credit. The 2001 include the net effects of changing the salary assumption and weaker investment results for FY2001.

Summary of Actuarial Certification Statement

The summary of the actuarial certification of the Employees' Retirement System as of June 30, 2000 and 2001 is set forth below:

EMPLOYEES' RETIREMENT SYSTEM OF THE STATE OF HAWAII
Summary of Actuarial Certification as of June 30, 2000 and 2001*
(Includes all counties)

ASSETS	2000	2001
Total current assets	$ 9,204,707,100	$ 9,515,956,700
Present value of future employee contributions	329,597,800	381,867,600
Present value of future employer normal cost contributions	1,303,361,100	1,037,015,600
Unfunded actuarial accrued liability	465,579,100	915,782,800
Present value of future employer Early Incentive Retirement Program contribution	77,736,700	75,173,200
TOTAL ASSETS	$11,380,981,800	$11,925,795,900
LIABILITIES		
Present value of benefits to current pensioners and beneficiaries	$ 4,659,521,500	$ 5,232,361,500
Present value of future benefits to active employees and inactive members	6,721,460,300	6,693,434,400
TOTAL LIABILITIES	$11,380,981,800	$11,925,795,900

* *Reflects Acts 100 of 1999 (and related lawsuit settlement), 151 of 1998 and 327 of 1997 which amended Sections 88-107 and 88-122, HRS.*
Source: FY 2000 from The Segal Company and FY 2001 from Gabriel, Roeder, Smith & Company.

As of June 30, 2001, the unfunded actuarial accrued liability (under the entry age normal actuarial cost method) of the Retirement System amounted to approximately $991 million, including $75 million due to the Early Incentive Retirement Program. The Retirement System's funded ratios-assets divided by the actuarial accrued liability increased during fiscal year 2001 as shown below:

Funded Ratios

June 30, 2000	June 30, 2001
94.4%	90.6%

PART II

GENERAL PURPOSE FINANCIAL STATEMENTS OF THE STATE OF HAWAII AS OF JUNE 30, 2001 AND INDEPENDENT AUDITORS' REPORT

The following information is excerpted from the State of Hawaii Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2001 ("CAFR"). For ease of reference, Part II of Appendix B retains the CAFR's pagination as shown on the immediately following excerpt from the Table of Contents of the CAFR.

STATE OF HAWAII

Comprehensive Annual Financial Report
Table of Contents

June 30, 2001

PART I: INTRODUCTION SECTION

PART II: FINANCIAL SECTION

(THIS PAGE INTENTIONALLY LEFT BLANK)

KPMG

P.O. Box 4150
Honolulu, HI 96812-4150

Independent Auditors' Report

Comptroller
State of Hawaii:

We have audited the accompanying general purpose financial statements of the State of Hawaii as of and for the year ended June 30, 2001, as listed in the table of contents under Part II: Financial Section. These general purpose financial statements are the responsibility of the State of Hawaii's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Enterprise Funds, comprised of the Department of Transportation – Airports and Harbors Divisions, or the Component Units of the State of Hawaii – the Housing and Community Development Corporation of Hawaii, the Hawaii Hurricane Relief Fund, the Hawaii Health Systems Corporation consisting of the State Hospitals, and the University Funds comprised of the State of Hawaii's public institutions of higher education. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Enterprise Funds and Component Units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Hawaii as of June 30, 2001, and the results of its operations and the cash flows of its Enterprise Funds and Component Units for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 31, 2001 on our consideration of the State of Hawaii's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

GENERAL PURPOSE

FINANCIAL STATEMENTS

STATE OF HAWAII

Exhibit A-1

Combined Balance Sheet – All Fund Types, Account Groups and Discretely Presented Component Units

June 30, 2001

(Amounts in thousands)

	Governmental Fund Types			
ASSETS AND OTHER DEBITS	**General**	**Special Revenue**	**Debt Service**	**Capital Projects**
Cash and short-term investments (note 4)	$ 217,775	$ 171,489	$ 2,238	$ 170,200
Receivables:				
Taxes (note 5)	276,900	7,000	—	—
Accounts and accrued interest, net (note 5)	—	—	—	—
Notes and loans, net (note 5)	484	220,939	—	—
Federal government	—	25,600	—	—
Other, net	161	—	—	218
Due from other funds (note 15)	206,878	3,462	110	1,232
Due from Component Units (note 15)	6,000	—	—	—
Due from Primary Government (note 15)	—	—	—	—
Investments (note 4)	265,025	676,018	—	—
Inventories:				
Developments in progress and dwelling units	—	—	—	—
Materials and supplies	—	—	—	—
Net investment in financing lease (note 10)	—	—	—	—
Restricted assets (notes 4, 6 and 10)	—	—	—	—
Property, plant and equipment (net, where applicable, of accumulated depreciation) (notes 7, 8 and 10)	—	—	—	—
Other assets:				
Unamortized bond issue costs	—	—	—	—
Prepaid expenses	—	—	—	—
Interest in perpetual trusts held by others	—	—	—	—
Other	—	2	—	—
Amount available in Debt Service Fund	—	—	—	—
Resources to be provided in future years for retirement of general long-term obligations	—	—	—	—
Total Assets and Other Debits	$ 973,223	$ 1,104,510	$ 2,348	$ 171,650

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Total Primary Government (Memorandum Only)	Component Units	Total Reporting Entity (Memorandum Only)
Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations			
$ 628,205	$ 448,972	$ —	$ —	$ 1,638,879	$ 409,618	$ 2,048,497
—	38,926	—	—	322,826	—	322,826
26,544	—	—	—	26,544	83,263	109,807
—	5	—	—	221,428	106,460	327,888
5,010	—	—	—	30,610	42,558	73,168
394	—	—	—	773	11,516	12,289
6,200	—	—	—	217,882	23,085	240,967
—	—	—	—	6,000	—	6,000
—	—	—	—	—	9,828	9,828
—	245,844	—	—	1,186,887	400,747	1,587,634
—	—	—	—	—	98,809	98,809
266	—	—	—	266	19,611	19,877
—	—	—	—	—	18,563	18,563
438,466	—	—	—	438,466	737,163	1,175,629
2,117,631	—	5,326,167	—	7,443,798	1,768,956	9,212,754
9,957	—	—	—	9,957	6,787	16,744
1,325	—	—	—	1,325	19,340	20,665
—	—	—	—	—	10,061	10,061
—	—	—	—	2	—	2
—	—	—	938	938	—	938
—	—	—	4,147,487	4,147,487	308	4,147,795
$ 3,233,998	$ 733,747	$ 5,326,167	$ 4,148,425	$ 15,694,068	$ 3,766,673	$ 19,460,741

(Continued)

STATE OF HAWAII

Combined Balance Sheet – All Fund Types, Account Groups and Discretely Presented Component Units (Cont'd)

June 30, 2001
(Amounts in thousands)

	Governmental Fund Types			
LIABILITIES, EQUITY AND OTHER CREDITS	**General**	**Special Revenue**	**Debt Service**	**Capital Projects**
Liabilities:				
Vouchers and contracts payable	$ 82,226	$ 19,219	$ —	$ 12,055
Other accrued liabilities	53,518	8,558	—	—
Prepaid airport use charge fund (note 17)	—	—	—	—
Claims and judgments payable (notes 12, 19 and 22)	—	—	—	—
Due to individuals, businesses and counties	—	—	—	—
Due to other funds (note 15)	6,310	25,600	—	181,208
Due to Component Units (note 15)	9,828	—	—	—
Due to Primary Government (note 15)	—	—	—	—
Due to federal government and others	—	—	—	—
Payable from restricted assets:				
Contracts payable, accrued interest and other	—	—	—	—
Matured bonds and interest payable	—	—	1,410	—
Revenue bonds payable, net (note 10)	—	—	—	—
General obligation bonds payable (note 9)	—	—	—	—
General obligation bonds payable (notes 9 and 12)	—	—	—	—
Notes, mortgage and installment contracts payable (note 8)	—	—	—	—
Deferred revenue	16,000	—	—	—
Accrued vacation payable (note 12)	—	—	—	—
Revenue bonds payable, net (notes 10 and 12)	—	—	—	—
Estimated future costs of land sold	—	—	—	—
Reserve for losses and loss adjustment costs (notes 12 and 22)	—	—	—	—
Capital lease obligations (notes 12 and 17)	—	—	—	—
Other	—	—	—	—
Total Liabilities	167,882	53,377	1,410	193,263
Equity and Other Credits:				
Investment in fixed assets	—	—	—	—
Contributed capital (note 14)	—	—	—	—
Retained earnings – reserved for bond requirements and other	—	—	—	—
Retained earnings – unreserved	—	—	—	—
Fund balances (deficit) (note 11):				
Reserved for refundable federal grants	—	—	—	—
Reserved for continuing appropriations	204,216	215,158	110	677,641
Reserved for receivables and advances	536	220,939	—	—
Reserved for federal aid highway projects encumbrances	—	—	—	124,325
Reserved for Hawaiian programs	—	—	—	—
Reserved for unemployment compensation, bond redemption and other	—	1	828	—
Unreserved:				
Designated for future expenditures	74,235	213,088	—	—
Undesignated	526,354	401,947	—	(823,579)
Total Equity and Other Credits	805,341	1,051,133	938	(21,613)
Commitments and contingencies (notes 17, 18, 19, 21, 22 and 23)				
Total Liabilities, Equity and Other Credits	$ 973,223	$ 1,104,510	$ 2,348	$ 171,650

Proprietary Fund Type: Enterprise	Fiduciary Fund Type: Trust and Agency	Account Groups: General Fixed Assets	Account Groups: General Long-Term Obligations	Total Primary Government (Memorandum Only)	Component Units	Total Reporting Entity (Memorandum Only)
$ 19,845	$ 3,288	$ —	$ —	$ 136,633	$ 71,310	$ 207,943
16,830	—	—	—	78,906	162,093	240,999
1,148	—	—	—	1,148	—	1,148
—	—	—	341,308	341,308	—	341,308
—	175,156	—	—	175,156	—	175,156
1,232	3,532	—	—	217,882	23,085	240,967
—	—	—	—	9,828	—	9,828
—	—	—	—	—	6,000	6,000
—	—	—	—	—	26,369	26,369
43,016	—	—	—	43,016	—	43,016
530	—	—	—	1,940	—	1,940
63,113	—	—	—	63,113	10,673	73,786
849	—	—	—	849	—	849
950	—	—	3,225,635	3,226,585	17,423	3,244,008
—	—	—	—	—	24,424	24,424
12,057	—	—	—	28,057	27,616	55,673
—	—	—	141,010	141,010	—	141,010
1,091,054	—	—	231,295	1,322,349	849,847	2,172,196
—	—	—	—	—	20,199	20,199
—	—	—	136,000	136,000	—	136,000
—	—	—	73,177	73,177	29,001	102,178
—	51,808	—	—	51,808	8,927	60,735
1,250,624	233,784	—	4,148,425	6,048,765	1,276,967	7,325,732
—	—	5,326,167	—	5,326,167	1,160,552	6,486,719
505,458	—	—	—	505,458	523,856	1,029,314
181,393	—	—	—	181,393	—	181,393
1,296,523	—	—	—	1,296,523	301,486	1,598,009
—	—	—	—	—	120,159	120,159
—	—	—	—	1,097,125	5,947	1,103,072
—	—	—	—	221,475	—	221,475
—	—	—	—	124,325	—	124,325
—	91,225	—	—	91,225	—	91,225
—	408,738	—	—	409,567	80,140	489,707
—	—	—	—	287,323	—	287,323
—	—	—	—	104,722	297,566	402,288
1,983,374	499,963	5,326,167	—	9,645,303	2,489,706	12,135,009
$ 3,233,998	$ 733,747	$ 5,326,167	$ 4,148,425	$ 15,694,068	$ 3,766,673	$ 19,460,741

(THIS PAGE INTENTIONALLY LEFT BLANK)

Combined Statement of Revenues, Expenditures and Changes in Unreserved Fund Balances (Deficit) – All Governmental Fund Types and Expendable Trust Funds

For the Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Governmental Fund Types				Fiduciary Fund Type	Total
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)
Revenues:						
Taxes (note 5)	$ 3,168,905	$ 254,498	$ —	$ —	$ 126,096	$ 3,549,499
Interest and investment income	52,925	47,825	—	49,485	31,807	182,042
Charges for current services	102,367	133,896	—	—	19,330	255,593
Intergovernmental	4,106	1,115,671	—	—	7,450	1,127,227
Rentals	12,793	15,910	—	—	3,248	31,951
Fines, forfeitures and penalties	17,447	5,060	—	—	—	22,507
Licenses and fees	955	21,584	—	—	—	22,539
Donations, contributions and deposits	—	—	—	—	26,627	26,627
Revenues from private sources	1,746	36,300	—	—	—	38,046
Accrued interest on general obligation bonds sold	390	—	—	—	—	390
Income tax designation for election campaign	—	—	—	—	455	455
Other	42,266	66,143	—	—	9,866	118,275
Total Revenues	3,403,900	1,696,887	—	49,485	224,879	5,375,151
Other Financing Sources:						
Proceeds from general obligation bonds (note 9)	—	—	—	150,000	—	150,000
Operating transfers in from other funds (note 16)	—	51,037	353,156	58,978	14,003	477,174
Operating transfers in from Component Units (note 16)	—	55	48,236	—	—	48,291
Capital leases	23,137	—	—	—	—	23,137
Total Other Financing Sources	23,137	51,092	401,392	208,978	14,003	698,602
Total Revenues and Other Financing Sources	3,427,037	1,747,979	401,392	258,463	238,882	6,073,753

(Continued)

Combined Statement of Revenues, Expenditures and Changes in Unreserved Fund Balances (Deficit) – All Governmental Fund Types and Expendable Trust Funds (Cont'd)

For the Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Governmental Fund Types				Fiduciary Fund Type	Total
	General	**Special Revenue**	**Debt Service**	**Capital Projects**	**Expendable Trust**	**(Memorandum Only)**
Expenditures:						
Current:						
General government	$ 432,668	$ 50,513	$ —	$ —	$ —	$ 483,181
Public safety	149,875	51,206	—	—	—	201,081
Highways	—	131,067	—	—	—	131,067
Conservation of natural resources	23,028	27,603	—	—	—	50,631
Health	307,262	123,361	—	—	—	430,623
Welfare	523,820	723,790	—	—	—	1,247,610
Lower education	882,755	155,270	—	—	—	1,038,025
Other education	3,771	8,690	—	—	—	12,461
Culture and recreation	32,437	24,128	—	—	—	56,565
Urban redevelopment and housing	1,295	8,553	—	—	—	9,848
Economic development and assistance	42,429	157,974	—	—	—	200,403
Social security and pension contributions	90,765	—	—	—	—	90,765
Unemployment compensation and other	—	—	—	—	198,967	198,967
Other	8,115	6,728	—	—	—	14,843
Intergovernmental	25	—	—	—	—	25
Capital outlay	23,497	—	—	311,284	—	334,781
Debt service	—	—	401,511	—	—	401,511
Total Expenditures	2,521,742	1,468,883	401,511	311,284	198,967	4,902,387
Other Financing Uses:						
Operating transfers out to other						—
funds (note 16)	325,190	133,063	—	18,603	318	477,174
Operating transfers out to Component Units (note 16)	417,340	—	—	60,707	—	478,047
Total Other Financing Uses	742,530	133,063	—	79,310	318	955,221
Total Expenditures and Other Financing Uses	3,264,272	1,601,946	401,511	390,594	199,285	5,857,608
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	162,765	146,033	(119)	(132,131)	39,597	216,145

(Continued)

STATE OF HAWAII

Combined Statement of Revenues, Expenditures and Changes in Unreserved Fund Balances (Deficit) – All Governmental Fund Types and Expendable Trust Funds (Cont'd)

For the Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Governmental Fund Types				Fiduciary Fund Type	Total
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)
Other Changes in Unreserved Fund Balances (Deficit):						
Add:						
Continuing appropriations, July 1, 2000	$ 149,090	$ 202,560	$ 258	$ 696,527	$ —	$ 1,048,435
Deduct:						
Continuing appropriations, June 30, 2001	(204,216)	(215,158)	(110)	(677,641)	—	(1,097,125)
	(55,126)	(12,598)	148	18,886	—	(48,690)
Increase in reserve for federal aid highway projects encumbrances, unemployment compensation, Hawaiian programs, bond redemption and other	—	—	(29)	(6,430)	(39,597)	(46,056)
Total Other Changes in Unreserved Fund Balances (Deficit)	(55,126)	(12,598)	119	12,456	(39,597)	(94,746)
Excess of Revenues and Other Financing Sources over (under) Expenditures, Other Financing Uses and Other Changes in Unreserved Fund Balances (Deficit)	107,639	133,435	—	(119,675)	—	121,399
Unreserved Fund Balances (Deficit), July 1, 2000	466,005	506,405	—	(700,042)	—	272,368
Residual equity transfer in from (out to) other funds (note 16)	26,945	(24,805)	—	(2,140)	—	—
Residual equity transfer out to Component Units (note 16)	—	—	—	(1,722)	—	(1,722)
Unreserved Fund Balances (Deficit), June 30, 2001	$ 600,589	$ 615,035	$ —	$ (823,579)	$ —	$ 392,045

See accompanying notes to general purpose financial statements.

(THIS PAGE INTENTIONALLY LEFT BLANK)

STATE OF HAWAII

Exhibit A-3

Combined Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General and Special Revenue Funds (Note 3)

For the Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	General Fund			Special Revenue Funds		
	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)	Budget	Actual (Budgetary Basis)	Variance – Favorable (Unfavorable)
Revenues:						
Taxes	$ 3,196,501	$ 3,141,993	$ (54,508)	$ 249,120	$ 251,316	$ 2,196
Interest and investment income	32,001	52,925	20,924	120,648	186,539	65,891
Charges for current services	112,669	108,994	(3,675)	870,274	636,984	(233,290)
Intergovernmental	3,876	4,106	230	1,176,939	1,199,993	23,054
Rentals	5,323	12,793	7,470	67,123	53,273	(13,850)
Fines, forfeitures and penalties	18,713	17,447	(1,266)	11,364	5,335	(6,029)
Licenses and fees	661	955	294	14,062	21,584	7,522
Revenues from private sources	7,080	1,746	(5,334)	37,911	36,307	(1,604)
Accrued interest on general obligation bonds sold	700	390	(310)	—	—	—
Debt service reimbursements	58,565	31,016	(27,549)	—	—	—
Other	68,247	69,213	966	245,595	1,041,286	795,691
Total Revenues	3,504,336	3,441,578	(62,758)	2,793,036	3,432,617	639,581
Expenditures:						
Current:						
General government	608,309	586,651	21,658	338,996	313,426	25,570
Public safety	154,317	151,859	2,458	89,223	58,268	30,955
Highways	—	—	—	198,037	167,137	30,900
Conservation of natural resources	28,177	25,165	3,012	40,631	29,425	11,206
Health	371,438	363,478	7,960	211,666	136,503	75,163
Hospitals	13,000	13,000	—	277,799	136,942	140,857
Welfare	519,231	511,238	7,993	616,783	542,848	73,935
Lower education	1,186,635	1,111,434	75,201	244,659	161,626	83,033
Higher education	409,034	397,502	11,532	232,469	205,363	27,106
Other education	3,752	3,691	61	9,189	8,097	1,092
Culture and recreation	33,424	32,864	560	33,166	24,128	9,038
Urban redevelopment and housing	1,360	1,304	56	14,838	10,061	4,777
Economic development and assistance	45,380	44,785	595	260,241	165,915	94,326
Airports	—	—	—	456,112	422,213	33,899
Water transportation and terminals	—	—	—	53,518	47,311	6,207
Housing	7,567	7,379	188	68,596	36,354	32,242
Social security and pension contributions	42,366	40,580	1,786	—	—	—
Other	9,086	8,981	105	86,735	73,822	12,913
Intergovernmental	25	25	—	—	—	—
Total Expenditures	3,433,101	3,299,936	133,165	3,232,658	2,539,439	693,219
Excess of Revenues over (under) Expenditures	$ 71,235	$ 141,642	$ 70,407	$ (439,622)	$ 893,178	$ 1,332,800

See accompanying notes to general purpose financial statements.

Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balance – Enterprise Funds and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Enterprise Funds	Component Units	Total Reporting Entity (Memorandum Only)
Operating Revenues:			
Concession fees	$ 176,861	$ —	$ 176,861
Sales of dwelling units	—	282	282
Sales of land	—	6,518	6,518
Airport use charges	36,823	—	36,823
Assessments	—	18,516	18,516
Special mortgage recording fees	—	5,836	5,836
Rentals	85,809	32,580	118,389
Net patient service revenues	—	238,192	238,192
Services	42,962	—	42,962
Interest	—	59,835	59,835
Premiums earned	—	21,084	21,084
Net increase in the fair value of investments	—	19,627	19,627
Other	11,369	8,369	19,738
Total Operating Revenues	353,824	410,839	764,663
Operating Expenses:			
Personal services	79,458	13,414	92,872
Nursing services	—	142,269	142,269
Medical supplies and drugs	—	25,517	25,517
Professional services	—	23,478	23,478
Purchased services	—	18,097	18,097
Other supplies	—	10,464	10,464
Interest	—	46,949	46,949
Depreciation and amortization	102,523	26,016	128,539
Repairs and maintenance	19,830	4,224	24,054
Cost of sales – land	—	14,855	14,855
Airports operations	27,071	—	27,071
Harbors operations	7,578	—	7,578
Fireboat operations	1,086	—	1,086
Loan servicing fees and amortization of bond issue costs	—	498	498
Premiums ceded	—	26,664	26,664
General administration	13,984	11,717	25,701
Project expense	—	6,879	6,879
Provision for uncollectible accounts	—	15,347	15,347
Other	362	30,210	30,572
Total Operating Expenses	251,892	416,598	668,490
Operating Income (Loss)	101,932	(5,759)	96,173

(Continued)

STATE OF HAWAII

Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balance – Enterprise Funds and Discretely Presented Component Units (Cont'd)

For the Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Enterprise Funds	Component Units	Total Reporting Entity (Memorandum Only)
Nonoperating Revenues (Expenses):			
Interest income	$ 60,331	$ 18,708	$ 79,039
Interest expense	(79,318)	(332)	(79,650)
Amortization of bond discount and bond issue costs	(643)	—	(643)
Contributed capital	27,874	—	27,874
HUD annual contributions	—	27,689	27,689
Loss on disposal of property, plant and equipment	(1,728)	—	(1,728)
Loss on transfer of property, plant and equipment	(1,528)	—	(1,528)
Other	(3,747)	2,441	(1,306)
Total Net Nonoperating Revenues	1,241	48,506	49,747
Income before Operating Transfers In and Extraordinary Item	103,173	42,747	145,920
Operating Transfers In From – General Fund (note 16):	—	13,000	13,000
Income before Extraordinary Item	103,173	55,747	158,920
Extraordinary Item:			
Loss from early redemption of revenue bonds payable (note 20)	—	(92)	(92)
Net Income	103,173	55,655	158,828
Excess of expenditures and other financing uses over revenues and other financing sources from governmental operations	—	(15,190)	(15,190)
Depreciation on contributed fixed assets that reduces contributed capital	14,449	9,062	23,511
Restricted contributions, net	—	760	760
Net Change in Retained Earnings/Fund Balance	117,622	50,287	167,909
Retained Earnings/Fund Balance, July 1, 2000, as previously reported	1,360,294	365,013	1,725,307
Adjustment (note 14)	—	18,707	18,707
Retained Earnings/Fund Balance, July 1, 2000, as restated	1,360,294	383,720	1,744,014
Residual equity transfer in from Capital Projects Fund (note 16)	—	1,722	1,722
Retained Earnings/Fund Balance, June 30, 2001	$ 1,477,916	$ 435,729	$ 1,913,645

See accompanying notes to general purpose financial statements.

STATE OF HAWAII

Exhibit A-5

Combined Statement of Cash Flows – Enterprise Funds and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 2001

(Amounts in thousands)

	Enterprise Funds	Component Units	Total Reporting Entity (Memorandum Only)
Cash Flows from Operating Activities:			
Operating income (loss)	$ 101,932	$ (5,759)	$ 96,173
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Provision for uncollectible accounts	3,073	15,347	18,420
Loss on sale of land, property and equipment	—	92	92
Interest paid on bonds	—	46,296	46,296
Depreciation and amortization	102,523	26,016	128,539
Nonoperating expense, net	(754)	—	(754)
Interest on investments	—	(52,846)	(52,846)
Interest on financing lease	—	(852)	(852)
Lender commitment fees amortized	—	(675)	(675)
Amounts released from restrictions	—	1,351	1,351
Net increase in fair value of investments	—	(19,627)	(19,627)
Decrease (increase) in assets:			
Accounts and accrued interest receivable	8,258	(13,515)	(5,257)
Notes, loans and mortgages receivable	—	33,239	33,239
Other assets	(6,329)	5,301	(1,028)
Increase (decrease) in liabilities:			
Vouchers and contracts payable, accrued interest and other	(1,309)	8,668	7,359
Other accrued liabilities	2,047	(17,269)	(15,222)
Prepaid airport use charge fund	418	—	418
Deferred revenue	(14,850)	—	(14,850)
Deferred gain on sale of dwelling units and land	—	(2,949)	(2,949)
Estimated future costs of land sold	—	2,271	2,271
Net Cash Provided by Operating Activities	195,009	25,089	220,098
Cash Flows from Noncapital Financing Activities:			
Principal payments on bond maturities	—	(20,235)	(20,235)
Principal payments on notes payable	—	(336)	(336)
Interest paid on bonds	—	(35,746)	(35,746)
HUD operating subsidy	—	9,969	9,969
Operating transfer in from General Fund	—	13,000	13,000
Contribution returned to State of Hawaii and others	—	(1,769)	(1,769)
Advances from other funds	—	598	598
Subsidies and other	—	2,244	2,244
Net Cash Used in Noncapital Financing Activities	—	(32,275)	(32,275)

(Continued)

Combined Statement of Cash Flows – Enterprise Funds and Discretely Presented Component Units (Cont'd)

For the Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Enterprise Funds	Component Units	Total Reporting Entity (Memorandum Only)
Cash Flows from Capital and Related Financing Activities:			
Proceeds from sale of land, property and equipment	$ —	$ 171	$ 171
Acquisition and construction of property and equipment	(105,276)	(21,894)	(127,170)
Proceeds from sale of revenue bonds	—	27,408	27,408
Proceeds from issuance of refunding revenue bonds	435,616	—	435,616
Payments to refund revenue bonds	(432,040)	—	(432,040)
Payments to defease revenue bonds	(158,335)	—	(158,335)
Repayment of general obligation bond principal	(844)	—	(844)
Repayment of revenue bond principal	(60,478)	(33,535)	(94,013)
Principal payments on notes payable and mortgage loans	—	(124)	(124)
Bond issue costs	(3,576)	—	(3,576)
Interest paid on bonds	(86,888)	(8,313)	(95,201)
Proceeds from federal, state and capital grants	26,690	17,719	44,409
Repayments on capital lease obligations and interest income	—	(2,631)	(2,631)
Net Cash Used in Capital and Related Financing Activities	(385,131)	(21,199)	(406,330)
Cash Flows from Investing Activities:			
Purchase of investments	(49,688)	(342,476)	(392,164)
Proceeds from sales and maturities of investments	78,245	322,048	400,293
Interest from investments	66,380	67,147	133,527
Payment received on direct financing lease	—	1,242	1,242
Net increase in restricted deposits and funded reserves	—	(1,045)	(1,045)
Net Cash Provided by Investing Activities	94,937	46,916	141,853
Net Increase (Decrease) in Cash and Cash Equivalents	(95,185)	18,531	(76,654)
Cash and Cash Equivalents, including Restricted Amounts, July 1, 2000	1,015,809	210,259	1,226,068
Cash and Cash Equivalents, including Restricted Amounts, June 30, 2001	$ 920,624	$ 228,790	$ 1,149,414
Reconciliation of Cash and Cash Equivalents to Combined Balance Sheet:			
Cash and short-term investments	$ 628,205	$ 181,822 *	$ 810,027
Restricted assets (note 6)	292,419	46,968	339,387
	$ 920,624	$ 228,790	$ 1,149,414
Noncash Investing, Capital and Financing Activities:			
Capital assets contributed by federal and state agencies	$ 1,088	$ 1,722	$ 2,810
Amortization of bond discount and bond issue costs	2,387	—	2,387
Interest capitalized on construction projects	—	359	359
Equipment acquired under capital leases	—	9,180	9,180
Transfer of land to Primary Government	—	(1,422)	(1,422)
Project costs written off	3,133	—	3,133
Equipment purchases included in accounts payable	—	468	468
Property, plant and equipment contributed by third parties	—	47	47
Equipment acquired under debt	—	11,893	11,893
Assumption of long-term debt and accounts receivable	—	800	800
Reclassification of other current assets to property	—	6	6

*Excludes $5,670 of time certificates of deposit with original maturities greater than three months, $22,039 of cash included in the governmental operations of the Housing and Community Development Corporation of Hawaii and $200,087of cash and short-term investments included in the University Funds.

See accompanying notes to general purpose financial statements.

Combined Statement of Changes in Fund Balances – Component Unit – University Funds

For the Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Endowment and Similar Funds
Revenues and Other Additions:				
Unrestricted current funds revenues	$ 216,711	$ —	$ —	$ —
Tuition and fees	—	2,072	—	—
Federal appropriations	—	3,063	—	—
Federal grants and contracts	—	143,486	189	—
State appropriations	—	—	—	—
State grants and contracts	—	9,424	—	—
Local grants and contracts	—	1,151	—	—
Private gifts, grants and contracts	—	25,939	—	5,260
Endowment and investment income	—	4,231	730	442
Sales and services of educational activities	—	1	—	—
Realized gains on investments	—	—	—	5,182
Expended for plant facilities	—	—	—	—
Amount spent for construction in progress	—	—	—	—
Transfers from other state agencies	—	—	—	—
Retirement of indebtedness	—	—	—	—
Other	—	1,020	1,139	—
Total Revenues and Other Additions	216,711	190,387	2,058	10,884
Expenditures and Other Deductions:				
Educational and general expenditures	480,823	192,018	—	—
Independent operations expenditures	4,868	370	—	—
Auxiliary enterprises expenditures	55,816	77	—	—
Administrative and collection cost	—	—	77	—
Expenditures for plant facilities (including uncapitalized expenditures of $9,992)	—	—	—	—
Loan cancellations and write-offs	—	—	239	—
Unrealized losses on investments	—	—	—	22,521
Increase in allowance for uncollectible loans	—	—	60	—
Retirement of indebtedness – bonds	—	—	—	—
Interest on indebtedness – bonds	—	—	—	—
Disposal of plant facilities	—	—	—	—
Funds lapsed	—	—	—	—
Other	3,463	—	7	—
Total Expenditures and Other Deductions	544,970	192,465	383	22,521

Plant Funds				
Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Total
$ —	$ —	$ —	$ —	$ 216,711
—	—	—	—	2,072
—	—	291	—	3,354
442	—	—	—	144,117
12	—	—	—	12
—	—	—	—	9,424
—	—	—	—	1,151
(613)	—	—	586	31,172
128	73	—		5,604
—	—	—	—	1
—	—	—	—	5,182
—	—	—	17,703	17,703
—	—	—	14,143	14,143
—	—	—	74	74
—	—	—	3,938	3,938
—	—	—	68	2,227
(31)	73	291	36,512	456,885
—	—	—	—	672,841
—	—	—	—	5,238
—	—	—	—	55,893
—	—	—	—	77
19,038	4,045	—	—	23,083
—	—	—	—	239
—	—	—	—	22,521
—	—	—	—	60
—	—	3,938	—	3,938
—	—	3,045	—	3,045
—	—	—	14,380	14,380
12	—	—	—	12
—	—	—	3,372	6,842
19,050	4,045	6,983	17,752	808,169

(Continued)

STATE OF HAWAII

Combined Statement of Changes in Fund Balances – Component Unit – University Funds (Cont'd)

For the Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Current Funds		Loan	Endowment and Similar
	Unrestricted	Restricted	Funds	Funds
University Interfund Transfers In (Out):				
Mandatory:				
Institutional contributions:				
Federal Perkins Loan Program	$ (66)	$ —	$ 66	$ —
Retirement of indebtedness	(5,079)	(30)	—	—
Renewals and replacements	(206)	—	—	—
Voluntary:				
Retirement of indebtedness	(1,755)	—	—	—
Renewals and replacements	(5,253)	—	—	—
Quasi-endowment – restricted	—	(113)	—	113
Quasi-endowment – fund transfer	981	4,848	—	(5,829)
Institutional contributions to State Higher Education Loan Fund	(195)	—	195	—
Housing assistance loans	(670)	—	670	—
Interfund transfer	(545)	(4,766)	—	—
Total University Interfund Transfers In (Out)	(12,788)	(61)	931	(5,716)
Transfers In (Out) (note 16):				
General Fund	397,346	—	—	—
Special Revenue Funds	—	—	—	—
Debt Service Fund	(48,236)	—	—	—
Capital Projects Fund	—	—	—	—
Total Transfers In (Out)	349,110	—	—	—
Net Increase (Decrease) before Cumulative Effect of Accounting Change	8,063	(2,139)	2,606	(17,353)
Fund Balances, July 1, 2000	62,709	21,624	23,106	199,817
Cumulative Effect of Accounting Change	—	—	—	—
Fund Balances, June 30, 2001	$ 70,772	$ 19,485	$ 25,712	$ 182,464

See accompanying notes to general purpose financial statements.

Plant Funds				
Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Total
$ —	$ —	$ —	$ —	$ —
—	—	5,109	—	—
—	206	—	—	—
—	28	1,727	—	—
—	5,253	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	5,311	—
—	5,487	6,836	5,311	—
—	—	—	—	397,346
(55)	—	—	—	(55)
—	—	—	—	(48,236)
12,900	—	—	—	12,900
12,845	—	—	—	361,955
(6,236)	1,515	144	24,071	10,671
41,418	29,265	5,030	1,103,394	1,486,363
—	—	—	(205)	(205)
$ 35,182	$ 30,780	$ 5,174	$ 1,127,260	$ 1,496,829

STATE OF HAWAII

Exhibit A-7

Statement of Current Funds Revenues, Expenditures and Other Changes – Component Unit – University Funds

For the Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Unrestricted	Restricted	Total
Revenues and Other Additions:			
Educational and general:			
Tuition and fees	$ 115,275	$ 2,072	$ 117,347
Federal appropriations	—	3,063	3,063
Federal grants and contracts	18,326	143,284	161,610
Operating transfer in from General Fund	397,346	—	397,346
State grants and contracts	1,360	9,372	10,732
Local grants and contracts	—	1,151	1,151
Private gifts, grants and contracts	91	28,299	28,390
Endowment income	1,488	4,230	5,718
Sales and services of educational activities	9,954	1	9,955
Other	5,934	1,019	6,953
Total educational and general	549,774	192,491	742,265
Sales and services of auxiliary enterprises	64,283	—	64,283
Total Revenues and Other Additions	614,057	192,491	806,548
Expenditures, Other Deductions and Mandatory Transfers:			
Educational and general:			
Instruction	211,044	26,688	237,732
Research	50,222	106,183	156,405
Public services	27,597	14,811	42,408
Academic support	61,928	7,542	69,470
Student services	26,948	6,675	33,623
Institutional support	53,521	8,608	62,129
Operation and maintenance of plant	47,326	213	47,539
Scholarships and fellowships	2,237	21,298	23,535
Operating transfer to Debt Service Fund	48,236	—	48,236
	529,059	192,018	721,077
Mandatory Transfers for :			
Institutional contributions:			
Federal Perkins Loan Program	66	—	66
Total educational and general	529,125	192,018	721,143

(Continued)

Statement of Current Funds Revenues, Expenditures and Other Changes – Component Unit – University Funds (Cont'd)

For the Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Unrestricted	Restricted	Total
Independent Operations – Expenditures	$ 4,868	$ 370	$ 5,238
Auxiliary Enterprises:			
Expenditures	55,816	77	55,893
Mandatory transfers for:			
Retirement of indebtedness	5,079	30	5,109
Renewals and replacements	206	—	206
Total auxiliary enterprises	61,101	107	61,208
Total Expenditures, Other Deductions and Mandatory Transfers	595,094	192,495	787,589
University Interfund Transfers and Other Additions (Deductions):			
Excess of restricted expenditures of $192,495 over restricted revenues of $190,387	—	(2,104)	(2,104)
Voluntary transfer to retirement of indebtedness	(1,755)	—	(1,755)
Voluntary transfer to renewals and replacements	(5,253)	—	(5,253)
Quasi-endowment – restricted	—	(113)	(113)
Quasi-endowment – fund transfer	981	4,848	5,829
Institutional contributions to State Higher Education Loan Fund	(195)	—	(195)
Housing assistance loans	(670)	—	(670)
Interfund transfer	(545)	(4,766)	(5,311)
Other	(3,463)	—	(3,463)
Total University Interfund Transfers and Other Additions (Deductions)	(10,900)	(2,135)	(13,035)
Net Increase (Decrease) in Fund Balances	$ 8,063	$ (2,139)	$ 5,924

See accompanying notes to general purpose financial statements.

(THIS PAGE INTENTIONALLY LEFT BLANK)

(1) Financial Statements Presentation

(a) General

The accompanying general purpose financial statements of the State of Hawaii (State) present the financial position of the various fund types and account groups, the results of operations of the various fund types and the changes in retained earnings/fund balance and cash flows of the Enterprise Funds and Component Units as of and for the fiscal year ended June 30, 2001.

(b) Definition of Reporting Entity

The State has defined its reporting entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. This statement establishes standards for defining and reporting on the financial reporting entity. The basic criterion for including a potential component unit within the reporting entity is financial accountability. Other criteria include legal standing and fiscal dependency.

The financial reporting entity consists of the Primary Government, which is the State, and all potential component units for which the Primary Government is financially accountable and other organizations for which the nature and significance of their relationship with the Primary Government are such that exclusion would cause the State's general purpose financial statements to be misleading or incomplete. The following branches and departments are included in the State's reporting entity because of the significance of their operational or financial relationships with the State and are thus included in the accompanying general purpose financial statements:

Executive:

Accounting and General Services
Agriculture
Attorney General
Budget and Finance
Business, Economic Development and Tourism
Commerce and Consumer Affairs
Defense
Education
Hawaiian Home Lands
Health
Human Resources Development
Human Services
Labor and Industrial Relations
Land and Natural Resources
Public Safety
Taxation
Transportation

Judicial

Legislative

(c) Discretely Presented Component Units

The Component Units column in the general purpose financial statements includes the financial data of the State's discretely presented Component Units. They are reported in a separate column to emphasize that they are legally separate from the State. The governing bodies of these discretely presented Component Units are appointed by the State. The discretely presented Component Units are as follows:

University Funds

The State established the University Funds to account for the financial activities of the State's public institutions of higher education whose functions are to provide instruction and conduct research in, and disseminate knowledge of agriculture, economics, history, languages, literature, mathematics, mechanical arts, natural sciences, philosophy, political and social sciences, physics and such other branches of advanced learning as the Board of Regents of the University of Hawaii (UH), may prescribe, and the federal government require.

Hawaii Revised Statutes (HRS) Chapter 304 governs the activities of the UH. The activities of the UH are under the general management of the Board of Regents consisting of 11 members who are appointed and may be removed by the Governor.

Housing and Community Development Corporation of Hawaii

The Housing and Community Development Corporation of Hawaii (HCDCH) was established as a corporate body to be placed within the Department of Business, Economic Development and Tourism for administrative purposes. In accordance with Act 350, Session Laws of Hawaii (SLH) of 1997, effective July 1, 1998, the functions and employees of the former Housing Finance and Development Corporation, the former Hawaii Housing Authority and the Rental Housing Trust Fund were transferred to the HCDCH. The HCDCH's housing programs will include performing housing finance, housing development, and residential leasehold functions; and clearing, replanning and reconstructing areas in response to the State Legislature's determination that there exists a critical shortage of safe and sanitary, affordable housing units for lower income residents. The State has the ability to influence the budget and programs of the HCDCH.

HRS Chapter 201G states that the HCDCH shall be a public body and a body corporate and politic. The statute provides that the HCDCH shall be headed by a Board of Directors comprised of nine members. The nine members consist of the following:

- Six public members appointed by the Governor (two appointed at large, and the remaining four appointed from each of the counties of Honolulu, Hawaii, Kauai, and Maui);
- The Director of Business, Economic Development and Tourism;
- The Director of Human Services; and
- The Representative of the Governor's Office.

Hawaii Hurricane Relief Fund

The Hawaii Hurricane Relief Fund (HHRF) was organized pursuant to, and operates in accordance with, HRS Chapter 431P. The HHRF, which began its operations on July 1, 1993, was established as a public body and a body corporate and politic to be placed within the Department of Commerce and Consumer Affairs for administrative purposes. The HHRF was primarily organized to provide hurricane property insurance policies in Hawaii in the event the private insurance market does not make such policies readily available to consumers in Hawaii.

Due to the increase in the availability of hurricane property insurance coverage from the private sector, the HHRF ceased writing hurricane property insurance policies effective December 1, 2000.

The HHRF is administered and operated by a Board of Directors. The Board consists of the following seven members:

- The Insurance Commissioner, as an Ex Officio voting member, appointed by the Governor; and
- Six members appointed by the Governor with the advice and consent of the Senate:
  - Two members appointed by the Governor;
  - Two members appointed by the Governor from a list of nominations submitted by the President of the Senate; and
  - Two members appointed by the Governor from a list of nominations submitted by the Speaker of the House of Representatives.

Hawaii Health Systems Corporation

The Hawaii Health Systems Corporation (HHSC) was established as a corporate body to be placed within the Department of Health for administrative purposes. The HHSC, consisting of the State Hospitals, was created to provide quality health care for all of the people in the State, including those served by small rural facilities, by freeing the facilities from unwarranted bureaucratic oversight.

Act 262, SLH of 1996, states that the HHSC shall be a public body corporate and politic and an instrumentality and agency of the State. The HHSC commenced operations on July 1, 1996. The statute provides that the HHSC shall be governed by a Board of Directors. The Board consists of the following thirteen members:

- Ten members appointed by the Governor:
  - One member from each of the counties of Honolulu, Kauai, and Maui;
  - Two members from the county of Hawaii;
  - One member from either the county of Kauai, or the county of Maui (district of Hana or island of Lanai); and
  - Four at-large members;

- The chairperson of the executive public health facility management advisory committee, as an Ex Officio voting member;
- A physician appointed by the executive public health facility management advisory committee; and
- The Director of Health, as an Ex Officio voting member.

The State has provided significant operating subsidies to the HHSC since its inception. Accordingly, a financial benefit/burden relationship exists between the State and the HHSC.

Negotiations between the HHSC and the State relating to the allocation of assets, liabilities and fund balances between the Department of Health and the HHSC pursuant to Act 262 were ongoing as of June 30, 2001. Accordingly, the assets, liabilities and fund balances of the HHSC reflected in the accompanying general purpose financial statements at June 30, 2001 may be significantly different from those included in the final settlement.

The HHSC is comprised of the following State Hospitals:

Hilo Medical Center
Hale Ho'ola Hamakua fka Honokaa Hospital
Ka'u Hospital
Kauai Veterans Memorial Hospital
Kohala Hospital
Kona Community Hospital
Kula Hospital
Lanai Community Hospital
Leahi Hospital
Samuel Mahelona Memorial Hospital
Maluhia (A Long-Term Care Health Center)
Maui Memorial Medical Center

The financial statements of the HHSC have been prepared in accordance with the American Institute of Certified Public Accountants (AICPA) *Industry Audit Guide – Health Care Organizations.*

Information for obtaining financial statements for the discretely presented Component Units may be obtained from the Department of Accounting and General Services.

The following agencies are excluded from the State's reporting entity:

- Employees' Retirement System (ERS)
- Office of Hawaiian Affairs (OHA)

(d) Fund Accounting

The financial activities are recorded in individual funds classified by type and described in the following sections, each of which is deemed to be a separate accounting entity. The financial position and operations of each fund are accounted for in separate self-balancing accounts which represent the fund's assets, liabilities, equity, revenues and expenditures or expenses. Account groups are used to establish accounting control and accountability for the State's general fixed assets and general long-term obligations. Account groups are not funds as they do not reflect available financial resources and related liabilities.

Governmental Fund Types

General Fund

Financial resources obtained and used for services traditionally provided by a state government, which are not accounted for in other funds, are accounted for in the General Fund.

Special Revenue Funds

Financial resources obtained from specific revenue sources and used for restricted purposes are accounted for in the Special Revenue Funds.

Debt Service Fund

Financial resources obtained and used for the payment of principal and interest on general long-term bond obligations are accounted for in the Debt Service Fund.

Capital Projects Fund

Substantially all financial resources obtained and used for the acquisition or construction of state general fixed assets and facilities are reflected in the Capital Projects Fund. Such resources are derived principally from proceeds of general obligation bond issues, federal grants and operating transfers from the Special Revenue Funds.

Proprietary Fund Type

Enterprise Funds

The Enterprise Funds are comprised of the following:

- Department of Transportation – Airports Division (Airports) which operates the State's airports and air navigation facilities and is responsible for general supervision of aeronautics within the State.
- Department of Transportation – Harbors Division (Harbors) which maintains and operates the State's Commercial Harbors System.

Fiduciary Fund Type

Trust and Agency Funds

Transactions related to assets held by the State in a trustee or agency capacity are accounted for in the Trust and Agency Funds. Trust and Agency Funds are comprised of:

- Expendable Trust Funds which account for assets held in trust to be expended for designated purposes.
- Agency Funds which account for employee benefit receipts and payments to the Hawaii Public Employees Health Fund and the clearance accounts for state payroll and tax collections, including protested tax payments.

Account Groups

General Fixed Assets Account Group

The General Fixed Assets Account Group is used to account for all fixed assets of the State other than those accounted for in the Enterprise Funds and Component Units.

General Long-Term Obligations Account Group

The General Long-Term Obligations Account Group is used to account for the unmatured long-term general obligation and revenue bonds, excluding those accounted for in the Enterprise Funds and Component Units. Certain claims and judgments payable, accrued self-insurance claims and accrued vacation payable for Governmental Fund Types are reflected in the General Long-Term Obligations Account Group.

Component Units

University Funds

Financial activities of the State's public institutions of higher education are accounted for in the Component Unit – University Funds.

Enterprise Funds

Component Units – Enterprise Funds are comprised of (1) the HCDCH which provides dwelling units for low and moderate income residents of the State; (2) the HHRF which funds, assesses and provides, when necessary, hurricane property insurance to residents of the State; and (3) the HHSC which was established to provide quality health care for all of the people of the State.

(2) Summary of Significant Accounting Policies

(a) Governmental Fund Types, Expendable Trust and Agency Funds

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included in the Combined Balance Sheet. Operating statements of those funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The State uses the modified accrual basis of accounting for the General, Special Revenue, Debt Service, Capital Projects and Expendable Trust and Agency Funds. Under the modified accrual basis of accounting, revenues and related current assets are recognized in the accounting period when they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at year-end. Measurable means that the amount of the transaction can be determined. Available means that the amount is collected in the current fiscal year or soon enough after year-end to liquidate liabilities existing at the end of the fiscal year. Revenues susceptible to accrual include federal grants and taxpayer-assessed tax revenues. Taxpayer-assessed tax revenues primarily consist of income and general excise taxes. Other revenues which are not considered susceptible to accrual, and therefore, are not accrued include fines, forfeitures and penalties, licenses, permits and franchises.

Expenditures are recorded when the related fund liabilities are incurred with the exception that principal and interest on general long-term bond obligations are recorded as fund liabilities when due or when amounts have been accumulated in the Debt Service Fund for payments of principal and interest to be made early in the following fiscal year.

Encumbrances are recorded obligations in the form of purchase orders or contracts. The State records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Cash and Short-Term Investments

Cash and short-term investments include all cash, repurchase agreements and U.S. government securities with original maturities of three months or less, and all time certificates of deposit.

Investments

Investments in U.S. government securities, corporate debt and equity securities are carried at fair value. Investments in time certificates of deposit and repurchase agreements are carried at cost.

Accumulated Vacation and Sick Leave

State employees' accumulated vacation is expected to be liquidated with future expendable resources and therefore is accrued in the General Long-Term Obligations Account Group. Sick leave is not convertible to pay upon termination of employment and is recorded as an expenditure when taken.

Fund Balances

Portions of fund balances are reserved for the following:

- Continuing appropriations which are comprised of encumbrances and unencumbered allotment balances. Encumbrances represent outstanding commitments which generally are liquidated in the subsequent fiscal year. Unencumbered allotment balances represent amounts that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use.
- Notes and loans receivable, advances and investments which are not currently available for expenditure at the Combined Balance Sheet date.
- Federal aid highway projects encumbrances.
- Expendable Trust Fund balances which are restricted to the purpose of the accounts.

Portions of the unreserved fund balances are designated for future capital and operating expenditures. Those designated fund balances represent appropriations which have not been allotted and are established to reflect tentative plans for the future use of financial resources.

(b) Proprietary Fund Type

Basis of Accounting

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of those funds are included in the Combined Balance Sheet. Fund equity (i.e., net total assets) is segregated into contributed capital, fund balance and retained earnings components. Proprietary Fund Type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accounts of the Proprietary Fund Type are reported under the accrual basis of accounting. Under this basis of accounting, revenues are recognized when they are earned and expenses are recorded when they are incurred, regardless of when received or expended as the case may be. The Proprietary Fund Type has not applied Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

Cash and Cash Equivalents

Cash and cash equivalents for the purpose of the Combined Statement of Cash Flows – Enterprise Funds and Discretely Presented Component Units include all cash and investments with original maturities of three months or less.

Investments

Investments in U.S. government securities, corporate bonds and corporate stocks are stated at fair value. Investments in repurchase agreements and other short-term investments are stated at cost. Contributed investments are recorded at fair value at date of receipt.

Inventories

Materials and supplies are stated at the lower of cost or market, with cost being determined principally using the first-in, first-out method.

Property, Plant and Equipment

Property, plant and equipment acquired by purchase or construction are recorded at cost. Airports facilities are depreciated on the straight-line basis over estimated useful lives of 20 to 45 years for land improvements and buildings and improvements and 10 years for machinery and equipment.

Depreciation on Harbors facilities is provided on the straight-line basis over estimated useful lives using composite rates of 1% to 4% for land improvements, 1% to 20% for buildings and improvements and 8% for machinery and equipment. Depreciation on Harbors facilities is not provided for in the year of acquisition, but is provided for an entire year in the year of disposal.

Maintenance, repairs, minor replacements, renewals and betterments are charged to operations as incurred. Major replacements, renewals and betterments are capitalized. Disposal of assets is recorded by removing the cost and related accumulated depreciation from the accounts with the resulting gain or loss reflected in operations.

Depreciation on property acquired through grants is included in depreciation expense presented in the Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balance – Enterprise Funds and Discretely Presented Component Units, and is transferred to the contributed capital account.

Nonexchange Transactions

Effective July 1, 2000, the State adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. GASB Statement No. 33 requires that the Enterprise Funds and Component Units recognize contributed capital as nonoperating revenues.

Bond Issue Costs

Costs related to the issuance of bonds are capitalized and amortized using the straight-line method over the term of the obligations.

Unamortized Bond Premium and Discount

Bond premium and discount are amortized using the effective interest method over the term of the related debt. The unamortized balance is offset against the related long-term debt.

Unamortized Loss on Refunding

The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The unamortized loss on refunding is reported as a deduction from the new debt liability.

Interest Cost

Total interest cost incurred for the fiscal year ended June 30, 2001 amounted to $101,482,000, of which $22,164,000 was capitalized as part of the acquisition cost of facilities.

Restricted Assets Investments

Revenue bond indentures authorize the State's trustees to invest monies in time certificates of deposit, money market funds and investment securities, including U.S. government or agency obligations, certain municipal bonds and repurchase agreements. Uninsured time certificates of deposit are required to be collateralized by investment securities of an equal or greater market value. The underlying securities for repurchase agreements are required to be U.S. government or agency obligations of an equal or greater market value held by the State's agent in the State's name.

(c) Account Groups

General Fixed Assets

General fixed assets are recorded at cost. Certain assets for which cost is not determinable have been valued at estimated historical cost. Contributed fixed assets are recorded at fair market value at date of receipt. Infrastructure assets consisting principally of highways, roads and bridges are expended in the Capital Projects Fund and are not capitalized or reported in the General Fixed Assets Account Group. Such assets are normally immovable and of value only to the State. Depreciation is not provided on general fixed assets.

(d) Component Units

Cash and Cash Equivalents and Investments

Cash and cash equivalents and investments are presented on the same basis of accounting as those of the Proprietary Fund Type.

University Funds

Basis of Accounting

The accounts of the Component Unit – University Funds are reported using the current financial resources measurement focus.

(Continued)

The financial statements of the Component Unit – University Funds have been prepared on the accrual basis of accounting with the following exceptions:

- Depreciation expense related to plant fund assets is not recorded.
- Revenues and expenditures of an academic program encompassing more than one fiscal year are reported solely in the fiscal year in which the program is predominantly conducted.

The Combined Statement of Changes in Fund Balances – Component Unit – University Funds is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses. To the extent that current funds are used to finance plant fund assets, the amounts so provided are accounted for as (1) expenditures, in the case of equipment and library books; (2) mandatory transfers, in the case of required provisions for debt agreements and equipment renewal and replacement; and (3) nonmandatory transfers, in all other cases.

Fund Accounting

The financial activities of the UH are recorded in funds which classify the various transactions by specified activities or objectives.

Restricted gifts, grants, endowment income and other restricted resources are accounted for in the Current Funds – Restricted, Loan Funds, Endowment and Similar Funds, and Plant Funds. Revenues and expenditures reported in the Current Funds – Restricted are designated for specific current operating purposes.

Transactions related to the various student loan programs are accounted for in the Loan Funds. Resources restricted for the acquisition of and investment in property, plant and equipment are accounted for in the Plant Funds.

Endowment and Similar Funds are subject to donor restrictions requiring the principal to be invested in perpetuity with only the related income to be utilized.

Agency Funds include all funds held by the UH as custodian or fiscal agent for others.

Enterprise Funds

Basis of Accounting

All Component Units – Enterprise Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of those funds are included in the Combined Balance Sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Component Units – Enterprise Funds operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

The accounts of the Component Units – Enterprise Funds are reported under the accrual basis of accounting. Under this basis of accounting, revenues are recognized when they are earned and expenses are recorded when they are incurred, regardless of when received or expended as the case may be.

Inventories

Inventories for the HCDCH consist of developments in progress and dwelling units available for sale which are stated at the lower of cost or estimated net realizable value, with cost being determined by the specific identification method. All estimated carrying costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Units available for sale include constructed units, developed lots and repurchased units available for sale. Developments in progress include construction in progress and land held for future development. The HCDCH currently has three development projects in progress. Those master planned community projects include Kapolei (Oahu), La'i'opua (Hawaii), and Leiali'i (Maui). Costs included in developments in progress relate to infrastructure construction for those master planned communities.

Materials and supplies are presented on the same basis of accounting as those of the Proprietary Fund Type.

Property, Plant and Equipment

Depreciation is provided by the HCDCH on its property and equipment on the straight-line basis over estimated useful lives of 10 to 40 years for buildings and improvements and 1 to 10 years for equipment.

Depreciation on HHSC facilities is provided on the straight-line basis over estimated useful lives of 5 to 50 years for buildings and improvements and 3 to 25 years for machinery and equipment.

Transfer of depreciation on the HCDCH's assets acquired or constructed from U.S. Department of Housing and Urban Development (HUD) annual contributions is limited to the lesser of the depreciation expense or HUD annual contributions received for the payment of debt principal.

Profit Recognition of Dwelling Unit Sales

The recognition of profit from the sale of dwelling units is dependent on a number of factors relating to the nature of the property sold, the terms of the sale and the future involvement of the HCDCH in the property sold. If a real estate transaction does not meet established financial criteria, profit recognition is deferred until such time as the criteria are met.

Commitment Fees

Commitment fees collected are deferred and amortized as an adjustment of the related loan's yield. The State has anticipated prepayments and is amortizing those amounts over an estimated economic life of 12 years. Costs relating to additional due diligence procedures performed by the State prior to acquiring the loans are expensed as incurred.

(Continued)

Recognition of Premiums and Other Revenues and Premiums Ceded

Premiums are recognized by the HHRF as revenue on a pro rata basis over the policy term. Reinsurance premiums ceded are recognized as incurred over the contract period in proportion to the amount of insurance protection provided.

Assessments

The HHRF recognizes assessments as revenue in the period the assessments are charged which is based on the insurers' gross direct written premiums for the preceding calendar year.

Special Mortgage Recording Fees

The HHRF recognizes special mortgage recording fees as revenue upon the recordation of each mortgage or amendment to a mortgage in the bureau of conveyances or filing with the assistant registrar of the land court of the State.

Servicing Facility Agreements

The HHRF has entered into servicing facility agreements with various property and casualty insurers. Under the terms of those servicing facility agreements, participating insurance companies receive a servicing fee equal to $25 for each policy issued or renewed on an annual basis.

Reinsurance Arrangements

The HHRF accounts for its reinsurance arrangements in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which establishes accounting and financial reporting standards for risk financing and insurance related activities of state governmental entities. The statement generally requires entities such as the HHRF to follow the accounting and financial reporting standards for similar business enterprises based primarily on Statement of Financial Accounting Standards No. 60, *Accounting and Reporting by Insurance Enterprises.*

Medicare and Medicaid Reimbursements

Revenues from services reimbursed under Medicare and Medicaid programs are recorded at the estimated reimbursable amounts. Final determination of the amounts earned is subject to review by the fiscal intermediary or a peer review organization. The State is of the opinion that adequate provision has been made for any adjustments that may result from such reviews.

(e) ***All Funds***

Risk Management

The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first $250,000 per occurrence of property losses and the first $2 million with respect to general liability claims. Losses in excess of those retention amounts are insured with commercial insurance carriers.

The limit per occurrence for property losses is $100 million ($50 million for earthquake and flood) and the annual aggregate for general liability losses per occurrence is $50 million. The State also has an insurance policy to cover medical malpractice risk in the amount of $30 million per occurrence with no annual aggregate limit. The State is generally self-insured for workers' compensation and automobile claims. The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to year-end, estimates (based on projections of historical developments) of claims incurred but not reported, and estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the general purpose financial statements and the amount of the loss is reasonably estimable.

Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying Combined Balance Sheet – All Fund Types, Account Groups and Discretely Presented Component Units.

Federal Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred and funds are available.

Intrafund and Interfund Transactions

Transfers of financial resources between departments and activities included within the same fund are eliminated. Transfers from funds receiving revenues to funds through which the resources are to be expended are recorded as operating transfers unless the transfers are considered to be nonrecurring or nonroutine transfers of equity, which are then recorded as residual equity transfers.

(Continued)

Recently Issued Accounting Standards

In June 1999, the GASB issued GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* GASB Statement No. 34 will be effective for the State beginning in the fiscal year ending June 30, 2002, and will significantly affect the way the State reports its financial information. Management has not yet completed its analysis to determine the effects of this statement.

Total Columns on General Purpose Financial Statements

The total columns on the accompanying general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Information in those columns do not purport to present financial position, results of operations, or cash flows of the State in conformity with accounting principles generally accepted in the United States of America (GAAP). Such data is not comparable to a consolidation. Interfund balances and transactions have not been eliminated.

(3) Budgeting and Budgetary Control

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the Combined Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General and Special Revenue Funds are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act of 1999 (Act 91, SLH of 1999), as amended by the Supplemental Appropriations Act of 2000 (Act 281, SLH of 2000), and from other authorizations contained in the State Constitution, the HRS and other specific appropriations acts in various SLH.

All expenditures of those appropriated funds are made pursuant to the appropriations in the fiscal 1999-2001 biennial budget.

The General Fund and Special Revenue Funds have legally appropriated annual budgets. Capital Projects Fund appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying Combined Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General and Special Revenue Funds represents the original appropriations, transfers and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of

Accounting and General Services. During the fiscal year ended June 30, 2001, there were no expenditures in excess of appropriations in the individual funds.

To the extent not expended or encumbered, General Fund and Special Revenue Funds appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund and Special Revenue Funds are presented in the Combined Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General and Special Revenue Funds. The State's annual budget is prepared on the modified accrual basis of accounting with several differences, principally related to (1) the encumbrance of purchase order and contract obligations and equipment acquired through long-term financing (basis difference); (2) the accounting for transfers of debt service payments through the General Fund (perspective difference); and (3) Special Revenue Funds programs which do not require legal appropriations (entity difference). The first two differences represent departures from GAAP.

A reconciliation of the budgetary to GAAP basis operating results for the fiscal year ended June 30, 2001 follows (amounts expressed in thousands):

	Funds	
	General	Special Revenue
Excess of revenues over expenditures – actual (budgetary basis)	$ 141,642	$ 893,178
Reserve for encumbrances at year-end*	198,435	148,915
Expenditures for liquidation of prior fiscal year encumbrances	(155,270)	(168,837)
Expenditures for unbudgeted programs and capital projects accounts	(360)	(81,055)
Enterprise Funds and Component Units**	—	(671,300)
Residual equity transfers	(26,945)	24,805
Tax refunds payable	(3,755)	—
Accrued liabilities	(34,322)	(31,973)
Accrued revenues	43,340	32,300
Excess of revenues and other financing sources over expenditures and other financing uses – GAAP basis	$ 162,765	$ 146,033

*Amount reflects the encumbrance balances (included in continuing appropriations) for budgeted programs only.

**Certain accounts of the Enterprise Funds and Component Units are included as Special Revenue Funds for budgetary purposes but excluded under GAAP.

(4) Cash and Investments

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State which in the Director's judgment are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Primary Government and Component Units based on their equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

(a) Cash

The State maintains approximately 20 bank accounts for various purposes at locations throughout the State and the nation. Bank deposits are under the custody of the Director of Finance. For financial statement reporting purposes, cash and short-term investments consist of cash, time certificates of deposit and money market accounts. Cash and short-term investments also include repurchase agreements and U.S. government securities with original maturities of three months or less.

For demand or checking accounts and time certificates of deposit, the State requires that the depository banks pledge collateral based on the daily available bank balances. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at various times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

The carrying amount of the State's deposits (cash, time certificates of deposit and money market accounts) as of June 30, 2001 was $1,276,090,000 for the Primary Government and $456,586,000 for the Component Units. The difference between deposits and cash and short-term investments as reflected in the general purpose financial statements relate to repurchase agreements and U.S. government securities with original maturities of three months or less amounting to $685,098,000 (Primary Government – $685,098,000 and Component Units – $0).

Information relating to the bank balance, insurance and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions. Total bank balances of deposits amounted to $1,579,651,000 at June 30, 2001. The portion of such bank balances covered by federal deposit insurance or by collateral held either by the State Treasury or by the State's fiscal agents in the name of the State totaled $1,244,417,000. The remaining bank balances of $335,234,000 represent deposits with the U.S. Department of the Treasury for the State's Unemployment Trust Fund, which were uncollateralized, and the Special Revenue Funds' and Enterprise Funds' cash in bank which was uninsured and uncollateralized. The Special Revenue Funds' and Enterprise Funds' cash balances were held by fiscal agents in the State's name for the purpose of satisfying outstanding bond obligations.

(b) Investments

The State holds investments both for its own benefit and as an agent for other parties. The State's investment of funds not required for immediate payments are predominantly comprised of U.S. government securities.

The following tables present the State's investments at June 30, 2001 (amounts expressed in thousands), and provide information about the credit and market risks associated with the State's investments. The three categories of credit risk are:

- Category 1: investments which are insured or registered, or securities held by the State or its agent in the State's name.
- Category 2: investments which are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.
- Category 3: investments which are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

	Fair value	Category 1	Category 2	Category 3
Investments – Primary Government:				
U.S. government securities	$ 212,711	$ 212,711	$ —	$ —
Repurchase agreements	890,570	890,570	—	—
Corporate stocks and bonds	396	396	—	—
Miscellaneous	843,423	843,423	—	—
	1,947,100	1,947,100	—	—
Less:				
Restricted assets investments*	(75,115)	(75,115)	—	—
Investments reported as cash and short-term investments	(685,098)	(685,098)	—	—
	$ 1,186,887	$ 1,186,887	$ —	$ —

	Fair value	Category 1	Category 2	Category 3
Investments – Component Units:				
U.S. government securities	$ 161,989	$ 161,982	$ 7	$ —
Repurchase agreements	205,138	—	205,138	—
Mortgage-backed securities	481,987	5,974	476,013	—
Corporate stocks and bonds	231,653	146,110	—	85,543
Miscellaneous	2,459	2,459	—	—
	1,083,226	316,525	681,158	85,543
Less restricted assets investments	(682,479)	(1,321)	(681,158)	—
	$ 400,747	$ 315,204	$ —	$ 85,543

*Restricted assets investments include $20,210 in repurchase agreements for the Primary Government with original maturities of three months or less which were reclassified as restricted cash and short-term investments.

(5) Receivables

(a) Taxes Receivable

The State recognizes revenue for general excise tax, individual income tax, corporate income tax, unemployment compensation tax and miscellaneous other taxes that are collected by merchants and other government agencies and earned by the State as of June 30, 2001, and are due and payable shortly thereafter.

At June 30, 2001, taxes receivable, which includes amounts recognized when an enforceable legal claim arises, net of refunds for income taxes of $30,700,000, consisted of the following (amounts expressed in thousands):

	Funds		
	General	**Special**	**Expendable Trust**
General excise tax	$ 175,800	$ —	—
Transient accommodations tax	3,200	7,000	8,400
Income taxes – corporate and individual	97,900	—	—
Unemployment compensation tax	—	—	30,526
	$ 276,900	$ 7,000	38,926

(b) Accounts and Accrued Interest Receivable

At June 30, 2001, accounts and accrued interest receivable for the Enterprise Funds and Component Units consisted of the following (amounts expressed in thousands):

	Enterprise Funds		
	Airports	**Harbors**	**Total**
Airport services and fees	$ 16,927	$ —	$ 16,927
Harbor services and fees	—	10,829	10,829
Accrued interest	7,009	1,875	8,884
	23,936	12,704	36,640
Less allowance for doubtful accounts	(4,064)	(6,032)	(10,096)
Accounts and accrued interest receivable, net	$ 19,872	$ 6,672	$ 26,544

	Component Units				
	University	HCDCH	HHRF	HHSC	Total
Hospital patient services	$ —	$ —	$ —	$ 133,164	$ 133,164
Accrued interest	2,820	8,402	3,432	—	14,654
Other	25,746	—	—	—	25,746
	28,566	8,402	3,432	133,164	173,564
Less allowance for doubtful accounts	(1,040)	—	—	(89,261)	(90,301)
Accounts and accrued interest receivable, net	$ 27,526	$ 8,402	$ 3,432	$ 43,903	$ 83,263

(c) *Notes and Loans Receivable*

At June 30, 2001, notes and loans receivable, net of estimated uncollectible amounts, consisted of the following (amounts expressed in thousands):

Primary Government:	
General Fund:	
Molokai Task Force loans	$ 153
Independent sugar growers loans	4
Emergency farm loans	132
OHA – economic development loans	47
Hamakua low interest loans	50
Molokai Loan Program Revolving Fund	98
Total General Fund	$ 484
Special Revenue Funds:	
Agriculture:	
Farm loans	$ 19,105
Hawaii agricultural products loans	26
Hawaii aquacultural loans	289
Business, Economic Development and Tourism	
Commercial fishing vessel repairs and maintenance loans	52
Hawaii capital loans	7,465
Fisheries new vessel loans	1,754
State disaster loans	66
Hawaii innovation loans	274
Hawaii community-based development loans	360
Hawaiian Home Lands*:	
Homesteaders loans	4,465
Hawaiian Home Lands general loans	41,565
Health – wastewater treatment plant loans	145,518
Total Special Revenue Funds	$ 220,939
Trust and Agency Funds – Native Hawaiian Rehabilitation Fund loans	$ 5

(Continued)

Component Units:		
University Funds – Student loans, net of allowance for doubtful accounts of $5,304	$	22,693
Enterprise Funds:		
HCDCH:		
Notes and loans		5,393
Mortgage loans		78,374
Total Enterprise Funds		83,767
Total Component Units	$	106,460

*Hawaiian Home Lands loans are generally collateralized by real property.

(6) Restricted Assets

Restricted assets are primarily restricted for revenue bond and general obligation bond debt and costs incurred in connection with repairs and maintenance of facilities and equipment.

At June 30, 2001, restricted assets for the Enterprise Funds and Component Units consisted of the following (amounts expressed in thousands):

	Enterprise Funds		
	Airports	**Harbors**	**Total**
Cash	$ 130,159	$ 55,815	$ 185,974
Time certificates of deposit (includes cash equivalents of $37,103 for Airports and nil for Harbors)	66,993	—	66,993
Repurchase agreements* (cash equivalents)	49,132	20,210	69,342
Investments – repurchase agreements*	54,905	—	54,905
Net direct financing leases	42,739	18,513	61,252
	$ 343,928	$ 94,538	$ 438,466

	Component Units			
	University	HCDCH	HHSC	Total
Cash	$ —	$ 5,623	$ —	$ 5,623
Short-term investments (includes cash equivalents of $41,345 for HCDCH)	—	41,345	—	41,345
Investments:				
U.S. government securities, at fair value	1,321	7	—	1,328
Mortgage-backed securities, at fair value	—	476,013	—	476,013
Repurchase agreements*	—	205,138	—	205,138
Deposits, funded reserves and other	—	6,316	1,400	7,716
	$ 1,321	$ 734,442	$ 1,400	$ 737,163

*The repurchase agreements are with certain regulated financial institutions and are collateralized by U.S. government securities. The securities collateralizing the repurchase agreements are held by the State's agent in the State's name.

See note 4 for fair values of investments by type and investment risk categories.

Certain leases of state-owned special facilities to parties engaged in airline and maritime operations are accounted for as direct financing leases. At June 30, 2001, net direct financing leases consisted of the following (amounts expressed in thousands):

	Enterprise Funds		
	Airports	Harbors	Total
Total minimum lease payments receivable	$ 87,532	$ 27,569	$ 115,101
Estimated unguaranteed residual value	—	3,600	3,600
Less amount representing interest	(48,398)	(12,656)	(61,054)
	39,134	18,513	57,647
Cash with trustee and other	3,605	—	3,605
	$ 42,739	$ 18,513	$ 61,252

Minimum future rentals to be received under direct financing leases as of June 30, 2001 consisted of the following (amounts expressed in thousands):

	Enterprise Funds		
	Airports	Harbors	Total
Fiscal year ending June 30:			
2002	$ 3,575	$ 949	$ 4,524
2003	3,544	949	4,493
2004	3,511	949	4,460
2005	3,601	949	4,550
2006	3,477	949	4,426
Thereafter	69,824	22,824	92,648
	$ 87,532	$ 27,569	$ 115,101

(7) Property, Plant and Equipment

(a) *Enterprise Funds and Component Units*

At June 30, 2001, property, plant and equipment for the Enterprise Funds and Component Units consisted of the following (amounts expressed in thousands):

	Enterprise Funds		
	Airports	Harbors	Total
Land and land improvements	$ 941,442	$ 324,877	$ 1,266,319
Buildings and improvements	1,241,975	293,341	1,535,316
Machinery and equipment	165,405	10,986	176,391
	2,348,822	629,204	2,978,026
Less accumulated depreciation	(895,556)	(119,388)	(1,014,944)
	1,453,266	509,816	1,963,082
Construction in progress	101,885	52,664	154,549
	$ 1,555,151	$ 562,480	$ 2,117,631

	Component Units			
	University	**HCDCH**	**HHSC**	**Total**
Land and land improvements	$ 99,822	$ 63,013	$ 4,745	$ 167,580
Buildings and improvements	712,821	566,965	192,496	1,472,282
Machinery and equipment	194,274	13,048	87,493	294,815
Library and other books	127,404	—	—	127,404
	1,134,321	643,026	284,734	2,062,081
Less accumulated depreciation	—	(247,729)	(130,092)	(377,821)
	1,134,321	395,297	154,642	1,684,260
Construction in progress	47,386	23,511	13,799	84,696
	$ 1,181,707	$ 418,808	$ 168,441	$ 1,768,956

(b) General Fixed Assets Account Group

Changes in general fixed assets during the fiscal year ended June 30, 2001 were as follows (amounts expressed in thousands):

	Land	**Buildings and Improvements**	**Equipment**	**Construction In Progress**	**Total**
Balance, July 1, 2000	$ 837,519	$ 3,231,051	$ 520,490	$ 727,894	$ 5,316,954
Additions	63,367	240,763	84,882	175,009	564,021
Deductions	(14,932)	(217,036)	(58,736)	(264,104)	(554,808)
Balance, June 30, 2001	$ 885,954	$ 3,254,778	$ 546,636	$ 638,799	$ 5,326,167

(8) Notes, Mortgage and Installment Contracts Payable– Component Units

(a) University Funds

At June 30, 2001, notes payable to various banks amounted to $91,000. The notes are payable in monthly or annual installments with interest ranging from 5.88% to 6.75% and are secured by various plant facilities.

At June 30, 2001, installment contracts payable arising from purchases of certain equipment amounted to $864,000 with interest ranging from 5.30% to 12.00% per annum.

(b) HCDCH

At June 30, 2001, the HCDCH had three mortgage notes payable to the U.S. Department of Agriculture, Farmers Home Administration, amounting to $530,000. Two notes were originated in August 1976, and are payable in combined monthly installments of $2,207, including interest at 1.00%, with the final combined payment due in August 2009. The final note was originated in October 1994, and is payable in monthly installments of $1,315, including interest at 1%, with the final payment due in October 2027. The notes are secured by property and rental receipts.

During fiscal 1996, the State of Hawaii Affordable Rental Program (SHARP) borrowed $3.5 million from the Department of Budget and Finance, Rental Housing Trust Fund, and issued approximately $7 million of revenue bonds to purchase the Kekuilani Courts Rental Housing Project from an outside party. The full amount of the non-interest bearing note is due and payable upon the earlier of June 30, 2027, or the redemption of all SHARP revenue bonds associated with the Kekuilani Courts Rental Housing Project.

The notes payable balance at June 30, 2001, also consisted of a $171,000, unsecured promissory note payable to an individual. The entire principal balance plus accrued interest, 2% at June 30, 2001, is due on February 15, 2018.

In October 1976, the Banyan Street Manor Project entered into a mortgage note agreement amounting to $1,728,000 with USGI, Inc. (insured by HUD). In September 1996, Greystone Servicing Corporation, Inc. became the new servicing agent and mortgagee. The mortgage loan bears interest at 7.50% and is collateralized by the rental property. Principal and interest are payable in monthly installments of $11,370. The mortgage loan matures on January 1, 2018 and amounted to $954,000 at June 30, 2001.

In December 1996, the HCDCH entered into mortgage agreements with the U.S. Department of Agriculture, Rural Development, in the amount of approximately $5,214,000 and with the Rental Housing Trust Fund Commission in the amount of approximately $696,000. The first mortgage loan bears interest at 7.25% and is collateralized by a low-income housing project. Principal and interest are payable in monthly installments of $11,509. The first mortgage loan matures on December 1, 2046 and amounted to $5,159,000 at June 30, 2001. The second mortgage loan bears interest at 1.00% and is collateralized by the same low-income housing project. Principal and interest are payable in monthly installments of $1,475. The second mortgage loan matures on January 1, 2047 and amounted to $640,000 at June 30, 2001.

The HCDCH also entered into an interest credit and rental assistance agreement in December 1996 with the U.S. Department of Agriculture, Rural Development, which reduces the HCDCH's principal and interest payments. During fiscal 2001, the HCDCH realized approximately $256,000 of interest credit which reduced the interest expense.

(c) HHSC

In June 2001, the HHSC acquired land, building and medical equipment for $11,893,162 from Hilo Residency Training Program, Inc. (HRTP). As part of the acquisition, the HHSC assumed HRTP's outstanding balances on the loans and notes payable of $11,893,162 with interest rates ranging from 4.75% to 9.00%. The loans and notes payable are collateralized by a security interest in the property, plant, and equipment acquired from HRTP, as well as any rights, interest and other tangible assets relating to such property. At June 30, 2001, the loans and notes payable amounted to $11,815,000.

In June 2001, the HHSC entered into a $700,000 term loan agreement with a local bank to finance the balance of the amount owing under the HHSC's guarantee of an $800,000 loan made by the local bank to West Kauai Community Development Corporation. The loan agreement bears interest at the bank's prime rate (6.75% at June 30, 2001).

Debt service requirements to maturity on notes, mortgage and installment contracts payable for fiscal years ending June 30 are summarized below (amounts expressed in thousands):

	University	HCDCH	HHSC	Total Principal Required	Total Interest	Total Amount Required
Fiscal year:						
2002	$ 698	$ 131	$ 521	$ 1,350	$ 1,398	$ 2,748
2003	157	137	585	879	1,321	2,200
2004	67	145	225	437	1,283	1,720
2005	33	153	241	427	1,258	1,685
2006	—	161	259	420	1,233	1,653
Thereafter	—	10,227	10,684	20,911	21,686	42,597
	$ 955	$ 10,954	$ 12,515	$ 24,424	$ 28,179	$ 52,603

(9) General Obligation Bonds Payable

The State issues general obligation bonds primarily to provide for the acquisition and construction of major capital facilities. Although certain general obligation debt is being retired from the resources of the Enterprise Funds and Component Unit – University Funds and is recorded in those funds, all general obligation bonds are backed solely by the full faith and credit of the State.

All issues except Series BL, issued December 6, 1988; Series BW and BX, issued March 1, 1992; Series BZ, issued October 1, 1992; Series CA and CB, issued January 1, 1993; $119,585,000 of Series CC, issued February 1, 1993; Series CD, issued February 1, 1993; Series CF, issued July 1, 1993; Series CH and CI, issued November 1, 1993; $59,560,000 of Series CJ, issued January 1, 1995; $22,220,000 of Series CK, issued September 1, 1995; $49,995,000 of Series CL, issued March 1, 1996; Series CM, issued December 1, 1996; $136,430,000 of Series CN, issued March 1, 1997; Series CO, issued March 1, 1997; $73,720,000 of Series CP, issued October 1, 1997; Series CQ, issued October 1, 1997; $101,215,000 of Series CR, issued April 1, 1998; and Series CS, issued April 1, 1998, contain call provisions (call prices range from 103 to 100). Stated interest rates range from 4.00% to 8.00%.

In October 2000, the State issued $150,000,000 of general obligation bonds, Series CU, dated October 15, 2000, with interest rates ranging from 4.60% to 5.875%. All series CU, except $45,275,000, contain call provisions (call prices range from 101 to 100). The bonds begin to mature on October 1, 2004 and were issued for the purpose of financing public improvement projects.

At June 30, 2001, the general obligation bonds consisted of the following (amounts expressed in thousands):

Callable		$ 1,089,203
Noncallable		2,155,654
Total general obligation bonds outstanding		3,244,857
Less amount recorded as a liability of:		
Enterprise Funds, including $849 payable from restricted assets	$ 1,799	
Component Unit – University Funds	17,423	
		19,222
Amount recorded in the General Long-Term Obligations Account Group		$ 3,225,635

Proceeds of certain general obligation bonds have been contributed as capital to Component Unit – HCDCH. Those bonds are recorded in the General Long-Term Obligations Account Group since principal repayments are funded through the State's General Fund. Component Unit – HCDCH reimbursed the State's General Fund approximately $35,000 for the interest portion of the debt service in fiscal 2001.

A summary of debt service requirements to maturity follows (amounts expressed in thousands):

	Principal	Interest	Total
Fiscal year:			
2002	$ 227,444	$ 94,152	$ 321,596
2003	282,850	147,974	430,824
2004	257,764	158,590	416,354
2005	269,890	151,623	421,513
2006	245,864	129,257	375,121
Thereafter	1,961,045	667,512	2,628,557
	$ 3,244,857	$ 1,349,108	$ 4,593,965

In prior fiscal years, the State defeased general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust accounts and the refunded bonds are not included in the State's general purpose financial statements. At June 30, 2001, $384,390,000 of bonds outstanding are considered defeased.

The State Constitution limits the amount of general obligation bonds which may be issued. As required by law, the Director of Finance has confirmed that the State was within its legal debt limit on the aforementioned issues. The legal debt margin at June 30, 2001 was $133,362,000.

(Continued)

At June 30, 2001, general obligation bonds authorized but unissued was approximately $789,665,000.

(10) Revenue Bonds Payable

(a) Primary Government

The Department of Hawaiian Home Lands (DHHL) issued $18,000,000 of revenue bonds in October 1991 (Series of 1991 bonds). Those bonds are payable from and secured by the DHHL's revenues from available lands and are due in annual installments through July 1, 2011. Interest on those bonds increases from 5.50% to 7.65% and is payable semi-annually on January 1 and July 1. The bonds maturing on or after July 1, 2002 are subject to redemption prior to their stated maturities at the option of the DHHL.

On January 15, 1999, the DHHL issued revenue bonds, Refunding Series of 1999, in the principal amount of $13,370,000. Bond proceeds related to this issue amounted to $13,334,000. The difference in the principal amount and proceeds relates to bond discount and accrued interest. The bonds bear interest at rates ranging from 3.80% to 4.45% and mature in increasing annual installments through fiscal 2012. The proceeds from the bonds were used to advance refund certain maturities of the Series of 1991 bonds. The bonds are payable from and secured by the DHHL's revenues from available lands.

On September 1, 1993, the Department of Transportation – Highways Division (Highways) issued $75,000,000 in State of Hawaii Highway revenue bonds, Series of 1993. The bonds bear interest at rates ranging from 2.60% to 5.00% and mature in increasing annual installments through fiscal 2013. On September 1, 1996, Highways issued $55,000,000 in State of Hawaii Highway revenue bonds, Series of 1996. The bonds bear interest at rates ranging from 3.80% to 6.00% and mature in increasing annual installments through fiscal 2014. On July 1, 1998, Highways issued State of Hawaii Highway revenue bonds, Series of 1998, in the principal amount of $94,920,000. Bond proceeds related to this issue amounted to $97,542,000, of which $71,921,000 is to be used to finance certain highway improvements and other related projects for the State Highways System, and $25,621,000 was used to refund certain outstanding State of Hawaii Highway revenue bonds. The difference in the principal amount and proceeds relates to bond premium and accrued interest. The bonds bear interest at rates ranging from 4.00% to 5.50% and mature in annual installments through fiscal 2019. On October 31, 2000, Highways issued State of Hawaii Highway revenue bonds, Series of 2000, in the principal amount of $45,360,000. The bonds bear interest at rates ranging from 4.40% to 5.50% and mature in annual installments through fiscal 2021. The bonds are payable solely from and collateralized by the revenues consisting primarily of highway fuel taxes, vehicle registration fees, vehicle weight taxes and rental motor vehicle and tour vehicle surcharge taxes.

The proceeds of the DHHL's revenue bonds, Refunding Series of 1999, and a portion of the proceeds of the State of Hawaii Highway revenue bonds, Series of 1998 (see above), were placed in irrevocable trusts and used to purchase securities of the U.S. government to meet the debt service requirements of the refunded bonds.

The liabilities for the refunded bond issues and the related securities and trust accounts are not included in the accompanying general purpose financial statements as the DHHL and Highways defeased its obligations for payment of those bonds upon completion of those refunding transactions.

Debt service requirements to maturity on the DHHL's and Highways' revenue bonds are summarized below (amounts expressed in thousands):

		DHHL		Highways		Total Principal Required		Total Interest		Total Amount Required
Fiscal year ending June 30:										
2002	$	800	$	7,140	$	7,940	$	11,607	$	19,547
2003		1,115		8,000		9,115		11,182		20,297
2004		1,155		8,400		9,555		10,733		20,288
2005		1,200		8,815		10,015		10,269		20,284
2006		1,250		9,235		10,485		9,785		20,270
Thereafter		8,650		175,535		184,185		71,142		255,327
	$	14,170	$	217,125	$	231,295	$	124,718	$	356,013

(b) ***Enterprise Funds and Component Unit – HCDCH***

Revenue bonds are backed by a pledge of resources derived from users of the related facilities and are not supported by the full faith and credit of the State.

At June 30, 2001, revenue bonds payable (net of unamortized bond premium, bond discount and unamortized loss on refunding) for the Enterprise Funds and Component Unit – HCDCH consisted of the following (amounts expressed in thousands):

		Current (Payable From Restricted Assets)		Noncurrent		Total
Enterprise Funds:						
Airports system revenue bonds	$	48,810	$	830,732	$	879,542
Airports special facility revenue bonds		790		41,665		42,455
Harbors revenue bonds		13,513		202,157		215,670
Harbors special facility revenue bonds		—		16,500		16,500
	$	63,113	$	1,091,054	$	1,154,167
Component Unit – HCDCH revenue bonds	$	10,673	$	830,817	$	841,490

(Continued)

(c) *Airports System Revenue Bonds*

The Airports system revenue bonds are payable solely from and collateralized by airport revenues, which include all aviation fuel taxes levied. The Airports system revenue bonds are subject to redemption at the option of the Department of Transportation (DOT) and the State during specific years at prices ranging from 102 to 100.

The following is a summary of the outstanding Airports system revenue bonds at June 30, 2001 (amounts expressed in thousands):

	Final Maturity Date	Interest Rates	Original Amount of Issue	Outstanding
Series:				
1991	2020	5.70 – 7.00%	$ 200,000	$ 4,425
1991, second	2021	5.40 – 7.00	400,000	8,225
1993, refunding	2013	4.00 – 6.45	131,035	107,565
1994, first refunding	2004	4.15 – 5.60	63,455	39,100
1994, second refunding	2004	4.40 – 5.85	79,070	16,850
1994, third refunding	2009	3.75 – 5.75	94,045	6,265
2000A, refunding	2021	5.50 – 6.00	26,415	26,415
2000B, refunding	2020	5.00 – 8.00	261,465	253,465
2001, refunding	2018	4.00 – 5.75	423,255	423,255
			$ 1,678,740	885,565
Add unamortized bond premium				19,383
Less:				
Unamortized bond discount				(1,599)
Unamortized loss on refunding				(23,807)
				879,542
Less current portion (payable from restricted assets), net of unamortized bond discount				(48,810)
				$ 830,732

The certificate providing for the issuance of revenue bonds provides for the levying and collection of minimum net revenues to service and provide reserves for maturing debt principal, interest, sinking fund and replacement and maintenance reserve requirements, and also provides for the maintenance of certain insurance coverages for fire, workers' compensation and public liability. At June 30, 2001, $244,676,000 was on credit in the revenue bond debt service sinking fund and reserve accounts.

On May 22, 2001, Airports issued $423,255,000 of Airports system revenue bonds (Refunding Series of 2001) with interest rates ranging from 4.00% to 5.75% to refund $428,630,000 of its outstanding Series of 1991 and Second Series of 1991 bonds with interest rates ranging from 5.40% to 7.00%. The net proceeds of $432,039,901 (after payment of $3,576,093 in underwriting fees, insurance, and other costs), along with an additional $18,027,298 from the debt service reserve account and the Airport Revenue Fund were deposited in an irrevocable trust with an escrow agent to be used to purchase noncallable direct obligations of the United States, maturing in amounts and bearing interest at such rates sufficient to meet the debt service requirements of the Series of 1991 and Second Series of 1991 bonds. On July 1, 2001, the refunded bonds were redeemed at a price of 102%. As a result, the refunded portion of the Series of 1991 and Second Series of 1991 bonds are considered to be defeased and the liability for those bonds has been removed from the general purpose financial statements.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $14,979,234. This difference, reported in the accompanying general purpose financial statements as a deduction from the Airports system revenue bonds, is being charged to operations over the next 20 years. Airports in effect reduced its aggregate debt service payments by approximately $75,179,000 over the next 20 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $68,919,000.

On May 23, 2001, Airports deposited $172,638,362 from the debt service reserve account and the Airport Revenue Fund in a separate irrevocable trust with an escrow agent to defease $158,335,000 of its outstanding Second Series of 1991, Second Refunding Series of 1994, and Third Refunding Series of 1994 bonds (collectively the "defeased bonds"). The funds were used to purchase noncallable direct obligations of the United States, maturing in amounts and bearing interest at such rates sufficient to meet the debt service requirements of the defeased bonds. The defeased bonds are to be redeemed at a price ranging from 100% to 102% at dates ranging from July 1, 2004 to July 1, 2012. As a result, the liability for the defeased bonds has been removed from the general purpose financial statements. The defeasance resulted in the recognition of a loss of $1,913,183 during the fiscal year ended June 30, 2001.

On May 25, 2000, Airports issued $26,415,000 and $261,465,000 of Airports system revenue bonds (Refunding Series of 2000A and Refunding Series of 2000B, respectively) with interest rates ranging from 5.5% to 6.0% and 5.0% to 8.0%, respectively, to refund $285,830,000 of its outstanding Series of 1990 and 1991 bonds with interest rates ranging from 6.45% to 7.375% and 6.75% to 7.5%, respectively. The net proceeds of $291,618,133 (after payment of $2,933,095 in underwriting fees, insurance, and other costs), along with an additional $8,787,390 from the debt service reserve account and the Airport Revenue Fund were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the refunded portion of the Series of 1990 and 1991 bonds on July 1, 2000. As a result, the refunded portions of the Series of 1990 and 1991 bonds are considered to be defeased and the liability for those bonds has been removed from the general purpose financial statements.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $13,156,983. This difference, reported in the accompanying general purpose financial statements as a deduction from the Airports system revenue bonds, is being charged to operations over the next 21 years. Airports in effect reduced its aggregate debt service payments by approximately $28,516,800 over the next 21 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately $22,267,000.

(d) Airports Special Facility Revenue Bonds

Airports has four special facility lease agreements with Western Airlines, Inc. in 1975 (merged with Delta Airlines, Inc. in 1987), with Continental Airlines, Inc. in July 1990 and November 1997 and with Caterair International Corporation in December 1990. The construction of the related facilities was financed by special facility revenue bonds issued by Airports in the amounts of $2,300,000, $16,600,000, $25,255,000 and $6,600,000, respectively. Those bonds are payable solely from and collateralized solely by certain rentals and other monies derived from the special facilities.

The following is a summary of pertinent information on Airports special facility revenue bonds at June 30, 2001:

$2,300,000 Issue

The bonds have a stated maturity date of June 1, 2005 and bear interest at 6.50% per annum. The bonds are subject to early redemption at the option of Airports, at 100.

$16,600,000 Issue

On July 15, 2000, Airports issued $16,600,000 of term special facility bonds (Continental Airlines, Inc.), Refunding Series of 2000, with an interest rate of 7.00%, due June 1, 2020, to, in part, refund $18,225,000 of its outstanding Series of 1990 bonds (Continental Airlines, Inc.), with interest rates ranging from 9.60% to 9.70%. The bonds are subject to redemption on or after June 1, 2010, at the option of Airports, upon the request of Continental Airlines, Inc. or, if the facilities are destroyed or damaged extensively, at 100% of principal plus interest.

$25,255,000 Issue

The bonds bear interest at 5.625% and are subject to redemption on or after November 15, 2007, at the option of Airports, upon the request of Continental Airlines, Inc., at prices ranging from 101 to 100, depending on the dates of redemption, or at 100 plus interest if the facilities are destroyed or damaged extensively.

Interest only payments are due semiannually on May 15 and November 15 of each year until the bonds mature on November 15, 2027, at which time the entire principal amount is due.

$6,600,000 Issue

The bonds bear interest at 10.125% and are subject to redemption on or after December 1, 2000, at the option of Airports, upon the request of Caterair International Corporation, at prices ranging from 103 to 100, depending on the dates of redemption, or at 100 plus interest if the facilities are destroyed or damaged extensively.

The special facility leases are accounted for and recorded as direct financing leases. The remaining lease payments to be paid by the lessees (including debt service requirements on the special facility revenue bonds) are recorded as a restricted asset and the special facility revenue bonds outstanding are recorded as a liability.

Debt service requirements to maturity on Airports special facility revenue bonds for fiscal years ending June 30 are summarized below (amounts expressed in thousands):

Fiscal year:		
2002	$	790
2003		820
2004		850
2005		1,005
2006		965
Thereafter		38,025
	$	42,455

(e) ***Harbors Revenue Bonds***

The Harbors revenue bonds are collateralized by a charge and lien on the gross revenues of the Commercial Harbors System and upon all improvements and betterments thereto and all funds and securities created in whole or in part from revenues or from the proceeds of any bonds issued. The Harbors revenue bonds are subject to redemption at the option of the DOT and the State during specific years at prices ranging from 102-1/2 to 100.

The following is a summary of the outstanding Harbors revenue bonds at June 30, 2001 (amounts expressed in thousands):

	Final Maturity Date	Interest Rates		Original Amount of Issue		Outstanding
Year of issue:						
1992	2019	5.10 – 6.50%	$	19,450	$	16,915
1992, refunding	2008	4.75 – 6.20		13,195		9,690
1993, refunding	2008	4.50 – 6.40		16,525		10,420
1994	2024	5.50 – 6.25		54,010		54,010
1997	2027	3.95 – 5.75		56,290		55,155
2000A	2029	4.50 – 6.00		79,405		76,185
			$	238,875		222,375
Less:						
Unamortized bond discount						(3,621)
Unamortized loss on refunding						(3,084)
						215,670
Less current portion (payable from restricted assets), net of unamortized bond discount						(13,513)
					$	202,157

(f) ***Harbors Special Facility Revenue Bonds***

In 1980, the State Legislature authorized the issuance of special facility revenue bonds for the construction, acquisition, remodeling, furnishing and equipping of state-owned special facilities for lease to parties engaged in maritime operations.

Pursuant to this authorization, $15,700,000 of 8-1/2% special facility revenue bond anticipation notes were issued in 1981 to finance the construction of container terminal facilities on Sand Island for the exclusive use of Matson Terminals, Inc. In 1983, special facility revenue bonds of $16,750,000 were issued to refund the notes and to provide additional funds for construction. On April 15, 1993, special facility revenue bonds of $16,500,000 were issued to refund the outstanding Series of 1983 bonds. The bonds, which bear interest at 5.75% per annum, mature on March 1, 2013, subject to optional redemption on or after March 1, 2003, at prices ranging from 102 to 100. Payment of the principal and interest on the bonds has been guaranteed by Matson Navigation Company, Inc., parent company of the lessee.

(g) ***Component Unit – HCDCH Revenue Bonds***

The State Legislature has enacted various acts which authorized the issuance of HCDCH revenue bonds. Through June 30, 2001, $1,901,343,000 of revenue bonds have been issued. The revenue bonds are payable solely from and secured solely by the revenues and other monies and assets of the Revenue Bond Funds and other assets of the HCDCH pledged under the indentures.

During fiscal 1998, the HCDCH, through its Single-Family Mortgage Purchase Revenue Bond Fund, issued $325,490,000 of Single-Family Mortgage Purchase revenue bonds. The bonds were issued to provide funds to purchase single pool mortgage-backed securities and to effect redemptions of certain bonds previously issued by the HCDCH. As a result, those bonds were considered to be in-substance defeased, and the liability for those bonds is no longer reported. The remaining unamortized deferred refunding cost amounted to approximately $1,898,000 at June 30, 2001. This difference is recorded as a deduction from revenue bonds payable and is being charged to operations through fiscal 2029.

In June 2000, the HCDCH, through its Single-Family Mortgage Purchase Revenue Bond Fund, issued $106,785,000 of 2000 Series A and $1,980,000 of 2000 Series B Single-Family Mortgage Purchase revenue bonds. The 2000 Series bonds were issued to provide funds to purchase single pool mortgage-backed securities and to effect a redemption of certain bonds previously issued by the HCDCH. The net proceeds of $8,765,000 that were earmarked for the redemption of bonds were used to purchase repurchase agreements. Those repurchase agreements were deposited in irrevocable trusts to provide for the redemption of portions of the 1998 Series A, 1997 Series A, 1994 Series A, 1991 Series A and B, and 1990 Series A bonds, by July 1, 2000. As a result, those bonds were considered to be in-substance defeased, and the liability for those bonds is no longer reported. The fiscal 2000 advanced refunding resulted in an accounting loss of approximately $30,000. This difference is recorded as a deduction from revenue bonds payable and is being charged to operations through fiscal 2008. The HCDCH completed the advanced refunding to reduce its total debt service payments over the next 30 years by approximately $880,000 and to obtain economic gains of approximately $370,000.

The University of Hawaii Faculty Housing Program revenue bonds of $17,680,000 were issued on November 1, 1995 by the HCDCH on behalf of the UH. The UH pays the principal and interest to the HCDCH pursuant to a capital lease agreement. Under the lease and sublease agreement (Agreement), the HCDCH leases the land under the housing project from the UH for an annual rental of $1 and then subleases the leased land, buildings and improvements and equipment back to the UH. The UH will make certain lease rental payments to the HCDCH, including amounts sufficient to pay the principal, premium, if any, and interest on the bonds as the same become due and payable. The Agreement expires on June 30, 2026. Upon expiration of the Agreement, the ownership of the buildings and improvements and equipment will revert to the UH.

The following lists the components of the HCDCH's net investment in financing lease as of June 30, 2001 (amounts expressed in thousands):

Total minimum lease payments to be received	$	33,773
Less unearned interest income		(15,210)
Net investment in financing lease	$	18,563

See note 17 describing the UH's capital lease obligation related to this Agreement. The difference between the HCDCH's net investment in financing lease and the UH's capital lease obligation is the result of differences in the HCDCH's implicit interest rate and the interest rate on the revenue bonds described above, and the accounting treatment related to a $2,450,000 payment from the UH to the HCDCH.

At June 30, 2001, such HCDCH serial and term revenue bonds payable were comprised of the following (amounts expressed in thousands):

	Year of Issue	Final Maturity Date	Interest Rates	Original Amount of Issue	Outstanding
Single-family mortgage purchase revenue bonds:					
Series A	1989	2030	7.25 – 7.80%	$ 120,145	$ 930
Series A	1990	2024	7.10 – 8.00	50,000	9,320
Series A	1991	2025	6.45 – 7.10	57,105	14,625
Series B	1991	2032	6.90 – 7.00	62,415	21,445
Series A	1994	2027	4.75 – 6.00	184,380	125,005
Series B	1994	2028	5.70 – 5.90	87,285	87,285
Series A	1997	2031	4.25 – 5.75	116,530	95,810
Series B	1997	2018	4.45 – 5.45	45,400	45,400
Series A	1998	2031	4.10 – 5.40	148,915	140,315
Series B	1998	2029	5.30	11,085	11,085
Series C	1998	2021	5.35	4,060	4,060
Series A	2000	2032	5.30 – 6.38	106,785	106,785
Series B	2000	2015	6.00	1,980	1,980
Multi-family housing revenue bonds:					
Series A	1999	2035	6.30	3,750	3,730
Series A	2000	2036	5.00 – 5.75	27,408	27,408
Rental housing system revenue bonds:					
Series A	1989	2025	Variable	16,500	15,200
Series A	1990	2026	Variable	33,500	32,600
Series B	1990	2026	Variable	35,700	34,900
Series A	1993	2019	4.65 – 5.70	14,025	11,590
State of Hawaii affordable rental housing program revenue bonds:					
Series A	1993	2028	Variable	30,700	30,600
Series A	1995	2031	6.00 – 6.10	7,020	6,835
University of Hawaii faculty housing program revenue bonds:					
1995 issue	1995	2026	4.35 – 5.70	17,680	16,480
				$ 1,182,368	843,388
Less unamortized loss on refunding					(1,898)
					841,490
Less current portion (payable from restricted assets)					(10,673)
					$ 830,817

On July 1, 2001, the HCDCH redeemed certain outstanding revenue bonds totaling $11,480,000, of which $2,920,000 were early redemptions.

Principal and interest maturities of the Enterprise Funds (excluding Airports and Harbors special facility revenue bonds) and Component Unit – HCDCH revenue bonds, including interest for Airports of $544,036,000, for Harbors of $168,034,000 and for the HCDCH of $907,931,000, were as follows (amounts expressed in thousands):

	Revenue Bonds				
	Enterprise Funds			Component Unit –	
	Airports	Harbors	Total	HCDCH	Total
Fiscal year ending June 30:					
2002	$ 79,034	$ 26,403	$ 105,437	$ 50,283	$ 155,720
2003	67,336	19,720	87,056	53,830	140,886
2004	67,578	19,729	87,307	54,295	141,602
2005	81,436	19,745	101,181	54,673	155,854
2006	85,284	19,757	105,041	55,092	160,133
Thereafter	1,048,933	285,055	1,333,988	1,483,146	2,817,134
	1,429,601	390,409	1,820,010	1,751,319	3,571,329
Add:					
Unamortized bond premium	19,383	—	19,383	—	19,383
Less:					
Unamortized bond discount	(1,599)	(3,621)	(5,220)	—	(5,220)
Unamortized loss on refunding	(23,807)	(3,084)	(26,891)	(1,898)	(28,789)
	$ 1,423,578	$ 383,704	$ 1,807,282	$ 1,749,421	$ 3,556,703

(h) Component Unit – University Funds

Component Unit – University Funds revenue bonds are collateralized by current funds revenues and are not supported by the full faith and credit of the State. At June 30, 2001, such revenue bonds were comprised of the following (amounts expressed in thousands):

	Series	Interest Rates	Outstanding
Student housing system at Manoa	C, D	3.00 – 3.50%	$ 795
Telecommunications system at Manoa	G	2.40 – 5.70	14,000
Student housing system at Manoa	I	3.40 – 5.50	4,235
			$ 19,030

At June 30, 2001, principal and interest maturities of the revenue bonds, including interest of $10,489,000, were as follows (amounts expressed in thousands):

Fiscal year ending June 30:		
2002	$	1,730
2003		1,727
2004		1,726
2005		1,727
2006		1,726
Thereafter		20,883
	$	29,519

All of the revenue bond obligations of the Component Unit – University Funds have provisions for early redemption at the option of the UH Board of Regents. The premiums on bond redemption, as a percentage of the bond principal amount redeemed, range up to 2.00%.

(i) Revenue Bonds Authorized But Unissued

At June 30, 2001, revenue bonds authorized but unissued was approximately $2,696,436,000.

(j) Special Purpose Revenue Bonds

HRS Chapter 39A authorizes the State (with legislative approval) to issue special purpose revenue bonds. Proceeds from those bonds are loaned to certain enterprises for projects deemed to be in the public interest. The bonds are not general obligations of the State and are payable solely from monies received by the State under project agreements with the recipients of the bond proceeds. Accordingly, the State has not included those bonds in its general purpose financial statements. Bonds outstanding at June 30, 2001 amounted to $1,386,456,000. At June 30, 2001, special purpose revenue bonds of $1,113,040,000 were authorized but unissued.

(k) Improvement District Bonds

The Hawaii Community Development Authority is authorized to issue improvement district bonds under HRS Chapter 206E. Proceeds from the bond issues are utilized to finance the redevelopment of districts designated by the State Legislature. The bonds are not general obligations of the State and are payable solely by assessment liens on the real property of the designated district. Accordingly, the State has not included those bonds in its general purpose financial statements. Bonds outstanding as of June 30, 2001 amounted to $5,960,000.

(l) Refunded Revenue Bonds Escrow Agent

The Director of Finance is the escrow agent of the irrevocable trusts created as a result of the Airports Refunding Series of 2000A and 2000B and Harbors Series A of 2000 revenue bonds. Investment income on the U.S. government securities ("Securities") held in the irrevocable trusts accrue to the benefit of the holders of the refunded bonds. Approximately $23,179,000 of Securities held in those irrevocable trusts at June 30, 2001 are not owned by the State. Accordingly, the

Securities and the related liability to the holders of the refunded bonds are not included in the accompanying general purpose financial statements.

(11) Fund Balances

Governmental Fund Types and Expendable Trust Funds

Changes in the State's fund balances during the fiscal year ended June 30, 2001 were as follows (amounts expressed in thousands):

	Governmental Fund Types				Expendable
	General	Special Revenue	Debt Service	Capital Projects	Trust Funds
Fund balances (deficit), July 1, 2000:					
Reserved	$ 149,724	$ 427,858	$ 1,057	$ 814,423	$ 460,366
Unreserved:					
Designated for future expenditures	33,836	187,410	—	—	—
Undesignated	432,169	318,995	—	(700,042)	—
	615,729	934,263	1,057	114,381	460,366
Residual equity transfer in from (out to) other funds and Component Units	26,945	(24,805)	—	(3,863)	—
Changes in reserved fund balances:					
Increase (decrease) in reserve for continuing appropriations	55,126	12,598	(148)	(18,886)	—
Decrease in reserve for receivables and advances	(98)	(4,358)	—	—	—
Decrease in reserve for Hawaiian programs	—	—	—	—	(6,392)
Increase in reserve for federal aid highway projects encumbrances	—	—	—	6,430	—
Increase in reserve for unemployment compensation, bond redemption and other	—	—	29	—	45,989
	55,028	8,240	(119)	(12,456)	39,597
Increase in unreserved fund balances – designated for future expenditures	40,399	25,678	—	—	—
Increase (decrease) in unreserved – undesignated fund balances	67,240	107,757	—	(119,675)	—
Fund balances (deficit), June 30, 2001	$ 805,341	$ 1,051,133	$ 938	$ (21,613)	$ 499,963
Fund balances (deficit), June 30, 2001:					
Reserved	$ 204,752	$ 436,098	$ 938	$ 801,966	$ 499,963
Unreserved:					
Designated for future expenditures	74,235	213,088	—	—	—
Undesignated	526,354	401,947	—	(823,579)*	—
	$ 805,341	$ 1,051,133	$ 938	$ (21,613)	$ 499,963

*The deficit balance of $823,579 is shown net of unreserved fund balances – designated for future expenditures totaling $798,648 at June 30, 2001. The deficit balance resulted primarily from continuing appropriations and federal encumbrances in excess of general obligation bonds issued.

At June 30, 2001, the Expendable Trust Funds' fund balance reserved for unemployment compensation and other consisted of the following (amounts expressed in thousands):

Unemployment compensation	$	354,728
Other		145,235
	$	499,963

(12) Changes in General Long-Term Obligations Account Group

Changes in the General Long-Term Obligations Account Group were as follows (amounts expressed in thousands):

	Claims and Judgments Payable	General Obligation Bonds Payable	Accrued Vacation Payable	Revenue Bonds Payable	Reserve for Losses and Loss Adjustment Costs	Capital Lease Obligation	Total
Balance, July 1, 2000	$ 326,256	$ 3,278,479	$ 140,545	$ 192,520	$ 192,000	$ 51,980	$ 4,181,780
Bonds issued	—	150,000	—	45,360	—	—	195,360
Net increase in accrued vacation payable	—	—	465	—	—	—	465
EIR Program (note 18)	7,202	—	—	—	—	—	7,202
Bonds retired	—	(202,844)	—	(6,585)	—	—	(209,429)
DHHL Trust Settlement (note 21)	7,850	—	—	—	—	—	7,850
Net decrease in reserve for losses and loss adjustment costs (note 22)	—	—	—	—	(56,000)	—	(56,000)
Capital lease obligation additions	—	—	—	—	—	23,137	23,137
Capital lease obligation payments (note 17)	—	—	—	—	—	(1,940)	(1,940)
Balance, June 30, 2001	$ 341,308	$ 3,225,635	$ 141,010	$ 231,295	$ 136,000	$ 73,177	$ 4,148,425

(13) Segment and Condensed Financial Information

Segment information and condensed financial statements for the State's Enterprise Funds and Component Units – University and Enterprise Funds (see note 1 for individual fund descriptions) as of and for the fiscal year ended June 30, 2001 were as follows (amounts expressed in thousands):

Condensed Statements of Revenues, Expenses and Changes in Fund Equity

	Enterprise Funds			Component Units – Enterprise Funds			
	Airports	Harbors	Total	HCDCH	HHRF	HHSC	Total
Operating revenues	$ 287,086	$ 66,738	$ 353,824	$ 124,166	$ 45,436	$ 241,237	$ 410,839
Operating expenses:							
Depreciation	91,228	11,295	102,523	14,559	—	11,457	26,016
Other	120,456	28,913	149,369	105,535	29,227	255,820	390,582
	211,684	40,208	251,892	120,094	29,227	267,277	416,598
Operating income (loss)	75,402	26,530	101,932	4,072	16,209	(26,040)	(5,759)
Interest income	50,641	9,690	60,331	1,298	17,410	—	18,708
Interest expense	(67,332)	(11,986)	(79,318)	(332)	—	—	(332)
Amortization of bond discount and bond issue costs	—	(643)	(643)	—	—	—	—
Contributed capital	27,874	—	27,874	—	—	—	—
HUD annual contributions	—	—	—	27,689	—	—	27,689
Loss on disposal of property, plant and equipment	(1,605)	(123)	(1,728)	—	—	—	—
Loss on transfer of property, plant and equipment	(1,528)	—	(1,528)	—	—	—	—
Other non-operating revenues (expenses)	(2,993)	(754)	(3,747)	389	—	2,052	2,441
Operating transfers in	—	—	—	—	—	13,000	13,000
Income (loss) before extraordinary item	80,459	22,714	103,173	33,116	33,619	(10,988)	55,747
Extraordinary item	—	—	—	(92)	—	—	(92)
Net income (loss)	80,459	22,714	103,173	33,024	33,619	(10,988)	55,655
Excess of expenditures and other financing uses over revenues and other financing sources from governmental operations	—	—	—	(15,190)	—	—	(15,190)
Depreciation on contributed fixed assets that reduces contributed capital	13,892	557	14,449	9,062	—	—	9,062
Restricted contributions, net	—	—	—	—	—	760	760
Fund equity, July 1, 2000, as restated	1,424,507	455,694	1,880,201	657,876	179,985	128,726	966,587
Residual equity transfer in from Capital Projects Fund	—	—	—	—	—	1,722	1,722
Increase in investment in fixed assets	—	—	—	5,123	—	—	5,123
Increase (decrease) in contributed capital	(13,892)	(557)	(14,449)	(30,842)	—	—	(30,842)
Fund equity, June 30, 2001	$ 1,504,966	$ 478,408	$ 1,983,374	$ 659,053	$ 213,604	$ 120,220	$ 992,877

Other Segment Information

	Enterprise Funds			Component Units – Enterprise Funds			
	Airports	Harbors	Total	HCDCH	HHRF	HHSC	Total
Net working capital	$ 541,432	$ 75,026	$ 616,458	$ 153,996	$ 213,604	$ (7,565)	$ 360,035
Total assets	$ 2,493,892	$ 740,106	$ 3,233,998	$ 1,584,079	$ 214,786	$ 238,480	$ 2,037,345
Bonds and other long-term liabilities:							
Payable from operating revenues	$ 872,746	$ 218,884	$ 1,091,630	$ 841,771	$ —	$ 25,036	$ 866,807
Payable from restricted assets	$ 70,304	$ 37,204	$ 107,508	$ 10,673	$ —	$ —	$ 10,673
Property, plant and equipment:							
Additions	$ 71,019	$ 36,303	$ 107,322	$ 20,931	$ —	$ 24,010	$ 44,941
Deductions	$ 6,729	$ 123	$ 6,852	$ 156	$ —	$ 15	$ 171

Condensed Balance Sheets – Component Units

		Enterprise Funds		
Assets	**University Funds**	**HCDCH**	**HHRF**	**HHSC**
Due from Primary Government	$ 8,914	$ 914	$ —	$ —
Other current assets	312,864	197,473	214,786	69,941
Property, plant and equipment, net	1,181,707	418,808	—	168,441
Other assets	225,843	966,884	—	98
Total Assets	$ 1,729,328	$ 1,584,079	$ 214,786	$ 238,480
Liabilities, Fund Equity and Other Credits				
Liabilities:				
Due to Primary Government	$ 6,000	$ —	$ —	$ —
Other current liabilities	171,960	42,440	1,182	76,106
Bonds payable	36,453	841,490	—	—
Other long-term liabilities	18,086	41,096	—	42,154
Total Liabilities	232,499	925,026	1,182	118,260
Fund Equity and Other Credits:				
Investment in fixed assets	1,127,260	33,292	—	—
Federal grants refundable	120,159	—	—	—
Contributed capital	—	523,755	101	—
Retained earnings/fund balance:				
Restricted	77,119	8,021	—	947
Unrestricted	172,291	93,985	213,503	119,273
Total Fund Equity and Other Credits	1,496,829	659,053	213,604	120,220
Total Liabilities, Fund Equity and Other Credits	$ 1,729,328	$ 1,584,079	$ 214,786	$ 238,480

(14) Contributed Capital – Enterprise Funds and Component Units – HCDCH and HHRF

During the fiscal year ended June 30, 2001, contributed capital changed as follows (amounts expressed in thousands):

	Enterprise Funds			Component Units		
	Airports	Harbors	Total	HCDCH	HHRF	Total
Contributed capital, July 1, 2000, as previously reported	$ 348,224	$ 171,683	$ 519,907	$ 554,596	$ 101	$ 554,697
Adjustment*:						
Net property and equipment	—	—	—	(18,659)	—	(18,659)
Contributed capital, July 1, 2000, as restated	348,224	171,683	519,907	535,937	101	536,038
Transfer of land to Primary Government	—	—	—	(3,191)	—	(3,191)
Transfer of depreciation from retained earnings	(13,892)	(557)	(14,449)	(9,062)	—	(9,062)
Other	—	—	—	71	—	71
Contributed capital, June 30, 2001	$ 334,332	$ 171,126	$ 505,458	$ 523,755	$ 101	$ 523,856

*During fiscal 2001, the HCDCH determined that it had erroneously capitalized certain expenditures as fixed assets in the prior years. Accordingly, the beginning retained earnings and contributed capital balances as previously reported have been restated by approximately $18,659,000.

(15) Interfund Receivables and Payables

Interfund receivables and payables consisted of the following at June 30, 2001 (amounts expressed in thousands):

	Due From	Due To
Primary Government:		
General Fund:		
Special Revenue Funds	$ 25,600	$ —
Debt Service Fund	—	110
Capital Projects Fund	181,208	—
Trust and Agency Funds	70	—
Enterprise Funds – Airports	—	6,200
	206,878	6,310
Component Units:		
University Funds:		
Current Funds – Unrestricted	—	8,914
Current Funds – Restricted	6,000	—
Enterprise Funds – HCDCH	—	914
Total Components Units	6,000	9,828
	212,878	16,138
Special Revenue Funds:		
General Fund	—	25,600
Trust and Agency Funds – Custodial and Clearance	3,462	—
	3,462	25,600
Debt Service Fund – General Fund	110	—
Capital Projects Fund:		
General Fund	—	181,208
Enterprise Funds – Harbors	1,232	—
	1,232	181,208
Enterprise Funds:		
General Fund	6,200	—
Capital Projects Fund	—	1,232
	6,200	1,232
Trust and Agency Funds:		
General Fund	—	70
Special Revenue Funds – Highways	—	3,462
	—	3,532
Component Units:		
University Funds:		
General Fund	8,914	6,000
Internal University Funds	23,085	23,085
	31,999	29,085
Enterprise Funds – General Fund	914	—
	$ 256,795	$ 256,795

(Continued)

(16) Transfers

Operating and other transfers between funds occur when a fund receiving revenues transfers resources to a fund where the resources are to be expended. Residual equity transfers are nonrecurring or nonroutine transfers of equity between funds. For the fiscal year ended June 30, 2001, transfers by fund were as follows (amounts expressed in thousands):

	Transfers In	Transfers Out
Operating and Other Transfers:		
Primary Government:		
General Fund:		
Special Revenue Funds:		
Natural Resources	$ —	$ 1,300
Human Services	—	15,467
Economic Development	—	25
Administrative Support	—	45
All Other	—	877
Total Special Revenue Funds	—	17,714
Debt Service Fund	—	307,326
Trust and Agency Funds	—	150
	—	325,190
Component Units:		
University Funds – Current Funds – Unrestricted	—	397,346
HCDCH	—	6,994
HHSC	—	13,000
Total Component Units	—	417,340
Special Revenue Funds:		
General Fund	17,714	—
Other Special Revenue Funds	28,573	28,573
Debt Service Fund	—	45,512
Capital Projects Fund	4,750	58,978
	51,037	133,063
Component Units – University Funds – Plant Funds – Unexpended	55	—
Debt Service Fund:		
General Fund	307,326	—
Special Revenue Funds:		
Highways	41,706	—
Hawaiian Programs	1,409	—
Administrative Support	640	—
All Other	1,757	—
Total Special Revenue Funds	45,512	—
Trust and Agency Funds – Expendable Trust Funds	318	—
	353,156	—
Component Units – University Funds – Current Funds – Unrestricted	48,236	—
Capital Projects Fund:		
Special Revenue Funds:		
Health	—	3,846
Highways	58,978	—
Administrative Support	—	904
Total Special Revenue Funds	58,978	4,750
Trust and Agency Funds – Expendable Trust Funds	—	13,853
	58,978	18,603

	Transfers In	Transfers Out
Component Units:		
University Funds – Plant Funds – Unexpended	$ —	$ 12,900
HCDCH	—	47,807
Total Component Units	—	60,707
	58,978	79,310
Trust and Agency Funds:		
General Fund	150	—
Debt Service Fund	—	318
Capital Projects Fund	13,853	—
	14,003	318
Component Units:		
University Funds:		
General Fund	397,346	—
Special Revenue Funds – Administrative Support	—	55
Debt Service Fund	—	48,236
Capital Projects Fund	12,900	—
Total University Funds	410,246	48,291
HCDCH:		
General Fund	6,994 *	—
Capital Projects Fund	47,807 *	—
Total HCDCH	54,801	—
HHSC – General Fund	13,000	—
	$ 1,003,512	$ 1,003,512
Residual Equity Transfers:		
Primary Government:		
General Fund:		
Special Revenue Funds:		
Highways	$ 11,000	$ —
Natural Resources	100	—
Economic Development	4,073	—
Regulatory	150	—
Administrative Support	9,482	—
Total Special Revenue Funds	24,805	—
Capital Projects Fund	2,140	—
	26,945	—
Special Revenue Funds – General Fund	—	24,805
Capital Projects Fund:		
General Fund	—	2,140
Component Units – HHSC	—	1,722
	—	3,862
Component Units:		
HHSC – Capital Projects Fund	1,722	—
	$ 28,667	$ 28,667

*Represents operating transfers to HCDCH's governmental operations that are not separately presented in the accompanying general purpose financial statements.

(17) Leases

(a) Leases Commitments

Governmental Fund Types and Expendable Trust Funds

The State leases office facilities and equipment under various operating leases expiring through fiscal 2022. Future minimum lease commitments for noncancelable operating leases as of June 30, 2001 were as follows (amounts expressed in thousands):

Fiscal year ending June 30:		
2002	$	6,068
2003		4,983
2004		4,099
2005		2,785
2006		1,523
Thereafter		11,812
Total future minimum lease payments	$	31,270

Rent expenditures for operating leases for the fiscal year ended June 30, 2001 amounted to approximately $47,000,000.

In November 1998, the State issued $54,850,000 in Certificates of Participation (COPS) to purchase the Kapolei State Office Building (Kapolei Building). The proceeds of the COPS were remitted to the Kapolei Building's developer. The holders of the COPS are the current owners of the Kapolei Building. Accordingly, the State's rental payments for the use of the Kapolei Building are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 1999 and continue through May 1, 2018, with interest rates ranging from 3.10% to 5.25%. Title to the Kapolei Building will transfer to the State upon the payment of all required rents.

In December 2000, the State issued $23,140,000 in COPS to purchase the No. 1 Capitol District State Office Building (Capitol District Building). The proceeds of the COPS were remitted to the former owners of the Capitol District Building. Accordingly, the State's rental payments for the use of the Capitol District Building are paid to a trustee, who then remits those amounts to the holders of the COPS. Payments commenced on May 1, 2001 and continue through May 1, 2020 with interest rates ranging from 4.5% to 5.375%. Title to the Capitol District Building will transfer to the State upon the payment of all required rents.

Future minimum lease payments for these capital leases are as follows (amounts expressed in thousands):

Fiscal year ending June 30:		
2002	$	6,348
2003		6,349
2004		6,353
2005		6,350
2006		6,357
Thereafter		80,109
Total future minimum lease payments		111,866
Less amount representing interest		(38,689)
Present value of net minimum lease payments	$	73,177

Component Units

The Component Units lease land and facilities under various operating leases expiring through fiscal 2056. Future minimum lease commitments for noncancelable operating leases as of June 30, 2001 were as follows (amounts expressed in thousands):

Fiscal year ending June 30:		
2002	$	1,397
2003		997
2004		780
2005		742
2006		752
Thereafter		39,530
Total future minimum lease payments	$	44,198

Rent expenditures for the fiscal year ended June 30, 2001 amounted to approximately $2,102,000.

HHSC – Capital Lease

As of June 30, 2001, future minimum lease commitments for the capital lease between the HHSC and Academic Capital LLC, including interest of $2,238,000, were as follows (amounts expressed in thousands):

Fiscal year ending June 30:		
2002	$	4,114
2003		3,938
2004		3,264
2005		2,274
2006		928
Thereafter		241
Total future minimum lease payments	$	14,759

University Funds – Capital Lease

As of June 30, 2001, future minimum lease commitments for the capital lease between the UH and the HCDCH related to the University of Hawaii Faculty Housing Program revenue bonds, including interest of $14,220,000, were as follows (amounts expressed in thousands):

Fiscal year ending June 30:		
2002	$	1,237
2003		1,237
2004		1,236
2005		1,239
2006		1,235
Thereafter		24,516
Total future minimum lease payments	$	30,700

(b) *Lease Rentals*

Proprietary Fund Type – Enterprise Funds

Airports – Airport-Airline Lease Agreement

Airports had an airport-airline lease agreement with certain major airline carriers (signatory airlines) which expired on July 31, 1992. The expired lease agreement provided the lessees with the nonexclusive right to use the Airports system facilities, equipment, improvements and services, in addition to occupying certain premises and facilities. From August 1, 1992 through June 30, 1993, the signatory airlines continued operations under monthly negotiated agreements with the DOT.

In January 1994, the DOT and the signatory airlines executed a letter agreement to extend the expired airport-airline lease agreement to June 30, 1994. Under the terms of the letter agreement, the signatory airlines would continue to operate under the terms of the expired airport-airline lease agreement, with an adjustment for terms and provisions relating to Airports system rates and charges, which include landing fees, nonexclusive joint-use premise charges for terminal rentals (overseas terminal, new interisland terminal and the international arrivals building), exclusive use premise rentals and Airports system support charges. The letter agreement further stipulated that the aggregate of all such rates and charges, together with aviation fuel taxes (as adjusted for aviation fuel tax credits), payable to the DOT by the signatory airlines would not exceed $84,175,000. The foregoing rates and charges were adjusted retroactively to July 1, 1993.

In June 1994, the DOT and the signatory airlines executed a lease extension agreement to extend the expired airport-airline lease agreement effective July 1, 1994 to June 30, 1997. Under the terms of the lease extension agreement, the signatory airlines would continue to operate under the terms of the expired airport-airline lease agreement, with an adjustment for terms and provisions relating to Airports system rates and charges. The nature of these charges are similar to those of the expired letter agreement; however, the lease extension agreement does not stipulate a maximum amount for aggregate Airports system charges. Instead, the lease extension agreement's residual rate-setting methodology provides for a final year-end reconciliation containing actual Airports system cost data to determine whether Airports system charges assessed to the signatory airlines were sufficient to recover Airports system costs, including debt service requirements under the certificate providing for the issuance of revenue bonds. Annual settlements based on this final reconciliation are made in accordance with the terms of the lease extension agreement. This final reconciliation resulted in a net overpayment by the signatory airlines of $464,000 for fiscal 2001, which is included in deferred revenue.

The DOT and the signatory airlines have mutually agreed to continue to operate under the terms of the lease extension agreement which provides for an automatic extension on a quarterly basis unless either party provides 60 days written notice to the other party of termination.

Airports – Prepaid Airport Use Charge Fund

The DOT and the signatory airlines entered into an agreement in August 1995 to extend the prepaid airport use charge fund (PAUCF). During fiscal 2000, the parties agreed to transfer the signatory airlines' net excess payments for fiscal 2000, 1999, 1998 and 1997 into the PAUCF, and Airports then paid $725,000 out of the PAUCF to the signatory airlines in fiscal year 2001.

Airports – Aviation Fuel Tax

In May 1996, the Department of Taxation issued a tax information release which stated that effective July 1, 1996, the Hawaii fuel tax will not apply to the sale of bonded aviation/jet fuel to air carriers departing for foreign ports or arriving from foreign ports on stopovers before continuing on to their final destination. The aviation fuel tax amounted to $3,870,000 for fiscal 2001.

Airports – System Rates and Charges

Signatory and non-signatory airlines were assessed the following rates and charges:

- Landing fees, net of aviation fuel tax credits, amounted to $36,823,000 for fiscal 2001 based on a computed rate per 1,000 pound units of approved maximum landing weight for each aircraft used in revenue landings. The interisland landing fees for signatory and non-signatory airlines are set at 36% and 32%, respectively, of the landing fees for overseas flights.

- Nonexclusive joint-use premise charges for terminal rentals amounted to $26,534,000 for fiscal 2001. Overseas and interisland joint-use premise charges were established to recover Airports system costs allocable to the overseas and interisland terminals joint-use space based on terminal rental rates and are recovered based on a computed rate per revenue passenger landing. Joint-use premise charges for the neighbor island terminals at Kahului Airport, Kona International Airport at Keahole, Lihue Airport and Hilo International Airport were established to recover from the signatory airlines Airports system costs allocable to the baggage claim, baggage tug drive and joint-use baggage makeup areas based on terminal rental rates and are recovered based on a computed rate per revenue passenger landing in accordance with the lease extension agreement. Effective March 1, 1997, a blended overseas joint-use charge was established to recover costs allocable to Hawaiian Airlines, Inc.'s consolidated terminal operations at the Honolulu International Airport. International arrivals building charges were established to recover Airports system costs allocable to the international arrivals area based on terminal rental rates and are recovered based on a computed rate per deplaning international passenger who uses the international arrivals area. For fiscal 2001, non-signatory airlines revenue was applied as a credit in calculating the joint-use premise charges and international arrivals building charges.

- Exclusive use premise charges amounted to $26,260,000 for fiscal 2001 and were computed using a fixed rate per square footage. Exclusive use premise charges for terminal rentals amounted to $15,873,000 for fiscal 2001.

- Airports system support charges amounted to $830,000 for fiscal 2001. The charges were established to recover residual costs of the Airports system and are based on a computed rate per 1,000 pound units of approved maximum landing weight for each aircraft used in revenue landings.

Airports – Other Operating Leases

Airports leases building spaces and improvements to concessionaires, airline carriers and other airport users. The terms of those leases range from 4 to 15 years for concessionaires and up to 45 years for other airport users. Concessionaire lease rentals are generally based on the greater of a percentage of sales or a basic minimum rent. Percentage rent included in concession fees revenues for the fiscal year ended June 30, 2001 was approximately $40,686,000.

Concession fees revenues from the DFS Group L.P. (DFS) concession contract accounted for approximately 61% of total concession fees revenues for the fiscal year ended June 30, 2001. The DFS concession contract, effective June 1, 2001, provides for payment of 30% of gross sales attributable to on-airport premises against 20% of the minimum annual guarantee payments aggregating $300,000,000 over the five-year contract and 22.5% of gross sales attributable to off-airport premises against 80% of the minimum annual guarantee payments aggregating $300,000,000 over the five-year contract. The DFS retail concession contract, effective March 15, 2001, provides for payment of 20% of gross sales against minimum guarantee payments aggregating $47,250,000 over the five-year contract. Deferred revenue related to the DFS concession contract amounted to $11,533,000 at June 30, 2001.

Airports – Subsequent Events

In response to the September 11, 2001 terrorist attacks, the State temporarily suspended airport landing fees and Airports system support charges assessed to signatory and non-signatory airlines. The waiver is effective for the period September 18, 2001 until December 31, 2001, after which time a determination on whether to continue the waiver will be made on a month-to-month basis up to April 30, 2002.

The State has also authorized the Governor to grant certain relief to businesses that have been adversely affected by the terrorist attacks. The DOT has recommended that the Governor grant relief to qualified airport concessionaires in the form of a limited waiver of the minimum annual guarantees payable under the concession agreements.

Harbors – Aloha Tower Complex Development

The Aloha Tower Development Corporation (ATDC) is a state agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex. The complex encompasses Piers 5 to 23 of Honolulu Harbor. In September 1993, Harbors entered into a lease with the ATDC transferring to the ATDC portions of the Aloha Tower complex. The ATDC is required annually to reimburse Harbors for any losses in revenues during the term of the lease caused by any action of the ATDC or the developer and to provide replacement facilities for maritime activities at no cost to Harbors.

In September 1993, the ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer and entered into a capital improvements, maintenance, operations and securities agreement (Operations Agreement) with the developer and Harbors. Harbors continues to operate the harbor facilities at Piers 8, 9 and 10. The lease between the ATDC and the developer requires the developer to construct, at the developer's cost, various facilities as designated in the developer's proposal and to reimburse Harbors for all losses in revenues and increased expenses which may be incurred by Harbors. The ATDC and the developer have agreed to offset reimbursements due to Harbors for losses in revenues during the construction period, with certain work performed by the developer to repair the structure of Piers 8 through 11, the cost of which would otherwise be incurred by Harbors. The developer is entitled to offset the cost of repairs, not to exceed $1.1 million, against its obligation to reimburse Harbors for losses in revenues. The first phase of the Aloha Tower complex development has been completed.

(Continued)

The loss in revenues for fiscal 2001 amounted to $1,678,000, and has been included in Harbors' rental revenues. As of June 30, 2001, the amount due to Harbors was $2,865,000.

Harbors – Leasing Operations

Harbors leases land, wharf and building spaces under month-to-month revocable permits and long-term leases. The long-term leases expire during various years through fiscal 2058. Those leases generally call for rental increases every five to ten years based on independent appraisals of the fair rental value of the leased property.

Enterprise Funds and Component Unit – HCDCH

Component Unit – HCDCH leases land to developers and home buyers. The leases are generally for 55 years with the last 25 years' lease rent negotiated based on the fair market value of the land.

The following schedule presents the approximate future minimum lease rentals under noncancelable operating leases of the Enterprise Funds and Component Unit – HCDCH as of June 30, 2001 (amounts expressed in thousands):

	Enterprise Funds			Component Unit
	Airports	Harbors	Total	HCDCH
Fiscal year ending June 30:				
2002	$ 86,745	$ 8,284	$ 95,029	$ 327
2003	84,916	8,331	93,247	327
2004	83,334	8,362	91,696	327
2005	83,107	8,320	91,427	286
2006	75,350	8,201	83,551	215
Thereafter	535,028	236,662	771,690	2,620
	$ 948,480	$ 278,160	$ 1,226,640	$ 4,102

(18) Retirement Benefits

(a) Plan Description

All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the ERS, a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under

Social Security. Police officers, firefighters, judges, elected officials and persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively.

Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

(b) Funding Policy

Most covered employees of the contributory option are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 19 years from July 1, 1997.

The State's contribution requirements as of June 30, 2001, 2000 and 1999 were approximately $7,690,000, $7,320,000 and $105,033,000, respectively. The State contributed 100% of its required contributions for those years. Changes in salary growth assumptions and investment earnings pursuant to Act 100, SLH of 1999, decreased the June 30, 2001 and 2000 required contributions. Covered payroll for the fiscal year ended June 30, 2001 was approximately $1,825,898,000.

(c) Early Incentive Retirement (EIR) Program

Act 212, SLH of 1994, effective July 1, 1994, allowed up to 2 years of additional service credit for certain members of the ERS as an incentive to retire immediately on a service pension. In addition, no age reduction penalties would be applied to those members opting for retirement under this program. Employees of the Department of Education or the UH with at least 25 years of credited service by December 31, 1994 had to retire on June 30, 1995 under the EIR program, and other employees with at least 25 years of credited service at the time of retirement had to retire no later than December 31, 1994. There were 2,925 state employees who retired under the EIR program. Of those employees, 1,485 retired in 1994 and 1,440 retired on June 30, 1995. Act 216, SLH of 2000, changed the funding period for the EIR program's costs from 5 years to 19 years retroactive to June 30, 1997.

Funding for the cost of the additional benefits paid under the EIR program is to be handled differently from the standard ERS funding. The costs of the additional benefits were determined as the excess of the actuarial value of the actual EIR program benefits paid at retirement over the actuarial value of the earliest retirement benefits the retiring employees could have received from the ERS if no EIR program existed. The State's obligation, considering the change in funding period and payments made under the original five-year period, discounted at 8% on an annuity due basis was $68,500,000. The State's actuarially determined obligation is to be paid in annual payments of $6,620,000. To date, the State has paid $34,400,000 (including interest of $7,300,000) of its obligation. The State's remaining discounted obligation of $62,037,000 is included in claims and judgments payable in the General Long-Term Obligations Account Group.

(d) Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than ten years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75% of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

There are currently approximately 22,100 state retirants receiving such benefits. Free life insurance coverage for retirants and free dental coverage for dependents under age 19 are also available. Retirants covered by the medical portion of Medicare are eligible to receive a reimbursement of the basic medical coverage premium. Contributions are financed on a pay-as-you-go basis. During fiscal 2001, expenditures of $106,770,000 were recognized for post-retirement health care and life insurance benefits, approximately $22,363,000 of which is attributable to the Component Units.

(Continued)

(19) Commitments and Contingencies

(a) Commitments

General Obligation Bonds

The State has issued general obligation bonds in which repayments, including interest, are reimbursed from specific revenue sources of the Special Revenue Funds with terms corresponding to that of the related general obligation bonds (see note 9). At June 30, 2001, outstanding commitments to repay general obligation bonds consisted of the following (amounts expressed in thousands):

Special Revenue Funds:		
Economic Development	$	319,624
Highways		135,888
Natural Resources		10,448
Agriculture		8,500
All Other		7,928
Administrative Support		2,709
	$	485,097

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2001, accumulated sick leave approximately $1,057,502,000.

Intergovernmental Expenditures

In accordance with Act 98, SLH of 1999, 45% of revenues generated by the transient accommodations tax are to be distributed to the counties.

Guarantees of Indebtedness

The State is authorized to guarantee indebtedness of others at a maximum amount of approximately $238,500,000 for aquacultural loans, Hawaiian Home Lands loans, various projects involving mortgage loans for rental homes made by private nonprofit corporations or governmental corporations, mortgage loans for housing projects and rental assistance obligations of Component Unit – HCDCH. The State has not paid, nor does it expect to pay, any amounts as a result of such guarantees as of June 30, 2001.

(b) ***Proprietary Fund Type – Enterprise Funds***

Construction and Service Contracts

At June 30, 2001, the Enterprise Funds had commitments of approximately $128,702,000 for construction and service contracts.

(c) ***Component Units – Enterprise Funds***

Construction and Service Contracts

At June 30, 2001, the HCDCH had commitments of approximately $20,411,000 for construction and service contracts. In addition, the HCDCH has authorization to provide approximately $873,000 in interim construction loans relating to such contracts.

Loan Commitments and Guarantee

The HCDCH had outstanding commitments to purchase loans from participating lenders of approximately $85,859,000 at June 30, 2001. In addition, the HCDCH has committed to provide maximum rental assistance subsidies of approximately $65,435,000 on various projects. The HCDCH also has an agreement to guarantee up to $40,000,000 of mortgage loans held by the ERS. Under the agreement, the HCDCH guarantees that upon the 120th day of any delinquency or default, it will either cure the arrearage of principal and interest or repurchase the delinquent loan. At June 30, 2001, approximately $1,757,000 in mortgage loans sold to the ERS were covered by the mortgage loan guarantee. The HCDCH has another agreement to provide interim construction financing of approximately $67,000,000 subject to the satisfaction of certain terms and conditions of the agreement. The term of the loan matures 48 months from the effective date of the agreement and accrues interest at 7.50%. In fiscal 2001, a request by the developer to amend the agreement was approved by the HCDCH. The major amendments include reduction in the number of units and acres of the development, the land purchase price, reduction to the interim construction financing to $42,000,000, and the extension for the execution of the loan agreement to November 2001.

Development Costs

At June 30, 2001, the HCDCH has approved funding of development costs for various projects of approximately $108,600,000, of which approximately $52,700,000 has been expended, net of approximately $13,123,000 of reimbursements from the County of Maui and the DOT.

Third-Party Payor Settlements

The estimated third-party payor settlements of the HHSC included in other accrued liabilities in the accompanying Combined Balance Sheet – All Fund Types, Account Groups and Discretely Presented Component Units as of June 30, 2001 are based on preliminary estimates. Such amounts are subject to adjustments in future periods as final settlements are determined.

Reinsurance Agreements

In the normal course of business, the HHRF seeks to reduce the loss that may arise in the event of a hurricane that causes unfavorable underwriting results by reinsuring under contracts with reinsurers. The HHRF is currently covered under five excess of loss agreements with reinsurers to be indemnified with respect to the net excess liability as a result of any loss or losses which may be ascribed to hurricane coverage for property. Although the HHRF obtains reinsurance, the HHRF is not relieved of its primary obligation to the policy holder in a reinsurance transaction. The HHRF performs due diligence procedures to ensure that amounts due from unrelated reinsurers will be collectible.

The HHRF's reinsurance program provides for a total of $785 million for any one loss occurrence in excess of the HHRF's Maximum Industry Loss Assessment (MILA). Coverage is available for multiple loss occurrences up to a maximum of two times the available limit for each loss occurrence. Currently, the $785 million of reinsurance is divided into five layers comprised of $52 million, $103 million, $130 million, $250 million and $250 million layers. The first layer provides $52 million in excess of the MILA. The second layer provides $103 million in excess of the MILA plus $52 million. The third layer provides $130 million in excess of the MILA plus $155 million. The fourth layer provides $250 million in excess of the MILA plus $285 million. The fifth layer provides $250 million in excess of the MILA plus $535 million. Reinsurance is also purchased for premiums required to reinstate limits under these reinsurance contracts to their original amounts. Earned premiums have been reduced by $26,664,000 for amounts ceded to reinsurers for the fiscal year ended June 30, 2001.

(d) Contingencies

The State has been named as defendant in numerous lawsuits and claims arising in the normal course of operations. To the extent that the outcome of such litigation has been determined to result in probable financial loss to the State, such loss has been accrued in the general purpose financial statements. Of the remaining claims (including the OHA matter disclosed in note 21), a number of claims may possibly result in adverse judgments against the State. However, such claim amounts cannot be reasonably estimated at this time. The litigation payments relating to the fiscal years ended June 30, 2001, 2000 and 1999 approximated $7,620,000, $6,200,000 and $6,000,000, respectively.

In the opinion of the Attorney General, the outcome of all contingencies and litigation will not have a material adverse effect on the financial position of the State.

Tobacco Settlement

In November 1998, the State settled its tobacco lawsuit as part of a nationwide settlement involving 46 other states and various tobacco industry defendants. Under the settlement, those tobacco companies that have joined in the Master Settlement Agreement will pay the State approximately $1.3 billion over a 25-year period. Through June 30, 2001, the State has received approximately $84,747,000. The State is to receive proceeds from this settlement in January and April of each year through 2003 and thereafter on April 15 of each year.

(20) Extraordinary Item

During fiscal 2001, the HCDCH redeemed revenue bonds totaling $11,060,000. The related unamortized bond issue costs, bond discount and other costs of $92,000 were written off when the early redemptions were approved and are reflected as an extraordinary item in the Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balance – Enterprise Funds and Discretely Presented Component Units. The revenue bonds redeemed were not refunded.

(21) Related Party Transactions

(a) Office of Hawaiian Affairs

In 1898, the Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States reconveyed title to those lands (collectively, the ceded lands) back to the State to be held as a public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and home ownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the ceded lands were to be held as a public trust for native Hawaiians and the general public, and to establish OHA to administer and manage the proceeds and income derived from a pro rata portion of the ceded lands for native Hawaiians.

In 1979, the State Legislature adopted HRS Chapter 10, which, as amended in 1980, specified, among other things, that OHA expend 20% of all funds derived by the State from the ceded lands for the betterment of native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987), the Hawaii Supreme Court concluded that HRS Chapter 10 was insufficiently clear regarding the amount of monies OHA was entitled to receive from the public trust lands.

In 1990, in response to *Yamasaki*, the State Legislature adopted Act 304, SLH of 1990, which (1) defined "public land trust" and "revenue," (2) specified that 20% of the "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (3) established a process for OHA and the Director of Finance to jointly determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period from June 16, 1980 through June 30, 1991. Since fiscal 1992, the State, through its departments and agencies, has been paying 20% of "revenue" to OHA on a quarterly basis.

In 1993, the State Legislature enacted Act 35, SLH of 1993, appropriating $136.5 million to pay the amount determined to be OHA's claims, with interest, for the period from June 16, 1980 through June 30, 1991.

In January 1994, OHA and its Board of Trustees (the Plaintiffs) filed suit against the State (*OHA, et al. v. State of Hawaii, et al.*, Civil No. 94-0205-01 (First Circuit)), claiming that the amount paid to OHA was inadequate and alleging that the State had failed to properly account for and fully pay the pro rata share of proceeds and income derived from the public land trust. Among other things, the Plaintiffs seek an accounting of all proceeds and income, funds and revenue derived from the public land trust since 1978, and restitution or damages amounting to 20% of the proceeds and income derived from the public land trust, as well as interest thereon. In its answer to OHA's complaint, the

State denied all of the Plaintiffs' substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

The Plaintiffs thereafter filed four motions for partial summary judgment as to the State's liability to pay OHA 20% of monies it receives from (1) Airports' in-bond duty-free airport concession (including receipts from the concessionaire's off-airport sales operations); (2) the state-owned and operated Hilo Medical Center; (3) the State's public rental housing projects and affordable housing developments; and (4) interest income, including investment earnings (collectively, the Sources). In response, the State filed a motion to dismiss on the basis of sovereign immunity and opposed Plaintiffs' four motions on the merits and raised several affirmative defenses.

On October 24, 1996, the Circuit Court of the First Circuit of the State of Hawaii (First Circuit Court) filed an order denying the State's motion to dismiss and rejecting its affirmative defenses. Also on October 24, 1996, the First Circuit Court filed an order granting the Plaintiffs' four motions for partial summary judgment with respect to the State's liability to pay OHA 20% of the monies it receives from each of the Sources, and deferred establishing amounts owed from those Sources for further proceedings or trial. The State's motion for leave to file an interlocutory appeal from both the order denying its motion to dismiss and the order granting the Plantiffs' four partial summary judgment was granted, and all proceedings in the suit have been stayed pending the Hawaii Supreme Court's disposition of the State's appeal.

On September 12, 2001, the Hawaii Supreme Court concluded that Act 304 was effectively repealed by its own terms, and that there were no juridically manageable standards by which to determine whether OHA was entitled to the revenue it sought from the Sources because the repeal of Act 304 revived the law which the Hawaii Supreme Count in *Yamasaki* had previously concluded was insufficiently clear to establish how much OHA was entitled to receive from the ceded lands. See, *OHA v. State*, 96 Haw., 388 (2001). The Supreme Court dismissed the case for lack of justiciability noting that it was up to the State Legislature to enact legislation to give effect to the right of native Hawaiians to benefit from the ceded lands under the State Constitution. It is unlikely that OHA will abandon these claims.

In a second lawsuit, OHA filed a complaint for declaratory and injunctive relief on November 4, 1994 (*OHA v. Housing Finance and Development Corporation et al.*, Civil No. 94-4207-11 (First Circuit)) to enjoin the State from alienating any ceded lands or, alternatively, to preclude the extinguishing of any rights native Hawaiians may have in ceded lands which may be alienated.

On April 2, 1996, the First Circuit Court denied the Defendants' motion for partial summary judgment which sought a ruling from the court that the State has the authority to alienate ceded lands. On March 12, 1998, the Defendants filed another motion (Motion to Dismiss Certain Counts and for Partial Summary Judgment) which the court heard on July 9, 1998 and denied on August 27, 1998. On September 3, 1998, the Defendants filed a Motion for Leave to File Interlocutory Appeal from Order Denying Motion. This motion was heard on September 24, 1998, and was denied on October 7, 1998. At the conclusion of a nonjury trial on December 4, 2001, the First Circuit Court took the case under submission. Both sides made submissions to the court in late December 2001.

In a third lawsuit, OHA filed suit against the Hawaii Housing Authority (the HHA), the executive director of the HHA, the board members of the HHA and the Director of Finance on July 27, 1995 (*OHA v. HHA, et al.*, Civil No. 95-2682-07 (First Circuit)) to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of ceded lands which were transferred to the HHA for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in *OHA v. State of Hawaii*, Civil No. 94-0205-01 (First Circuit). The repeal and revival of the pre-*Yamasaki* law by the Hawaii Supreme Court's September 12, 2001 decision in *OHA v. State* should also require dismissal of the claims OHA makes in *OHA v. HHA.*

At the present time, the State is not able to estimate with any reasonable certainty the magnitude of the potential liability as it may be determined either by judicial rulings (either at trial or on appeal) or by legislation enacted as a result of the process established in Act 329. Accordingly, no estimate of loss has been made in the accompanying general purpose financial statements. However, an ultimate decision against the State could have a material adverse effect on the financial position of the State.

(b) Department of Education and Department of Health

Felix v. Cayetano, Civil No. 93-00367 (U.S. District Court for the District of Hawaii). This case involves the State's responsibility under federal law to provide mental health services as a related service to children and adolescents who need such services to benefit from special education. After the U.S. District Court granted partial summary judgment as to liability in the Plaintiff's favor, the parties entered into a consent decree which allowed the State to plan and implement a new system of care. Under the consent decree and the supervision of the U.S. District Court, the State has been implementing a plan to improve the provision of such services. Because of the failure of the State to timely complete the implementation plan approved by the U.S. District Court, the State was held in contempt of court and the consent decree was extended to June 30, 2001 for completion of infrastructure to support the delivery of services and December 31, 2001 for substantial compliance with the consent decree.

The State avoided the U.S. District Court's imposition of a federal court-appointed receiver by meeting the court's revised benchmarks and conditions which the State was ordered to fulfill. At a hearing held on November 30, 2001, the U.S. District Court determined that the State had made significant progress in meeting the terms of the consent decree and, therefore, that a federal receiver was not necessary. The U.S. District Court's final review of the State's compliance with the consent decree will occur after March 30, 2002. The State is not able to estimate with reasonable certainty the ultimate costs of compliance with the consent decree.

(c) Department of Hawaiian Home Lands

Hawaiian Home Lands Trust Fund

Act 14, Special SLH of 1995, was approved by the Governor on June 29, 1995 and obligates the State to make 20 annual deposits of $30,000,000, or their discounted value equivalent, into the Hawaiian Home Lands Trust Fund beginning in the fiscal year ended June 30, 1996. The primary purpose of Act 14 is to resolve controversies and claims related to the Hawaiian Home Lands trust which arose between August 31, 1959 and July 1, 1988. Act 14 also established in the State Treasury a trust fund known as the Hawaiian Home Lands Trust Fund.

The State transferred $13,853,000 to the Hawaiian Home Lands Trust Fund during the fiscal year ended June 30, 2001.

To date, the State has transferred approximately $180,000,000 to the Hawaiian Home Lands Trust Fund. The State's remaining $420,000,000 obligation discounted at 6% assuming annual payments of $30,000,000 over the remaining term of the obligation, is approximately $278,850,000. This amount is included in claims and judgments payable in the General Long-Term Obligations Account Group.

Transfer of Property

Act 95, SLH of 1996, authorizes the transfer of certain parcels of land to the DHHL. The properties were conveyed in fiscal 1997 and the allocated costs were charged against contributed capital. The estimated future costs of those parcels will be recognized as contributions returned to the State and others when costs are incurred. The estimated allocated project costs and allocated costs incurred to date of those parcels of land were approximately $22,278,000 and $11,927,000, respectively.

Individual Claims

In 1991, the State Legislature enacted HRS Chapter 674, entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust," which established a process for individual beneficiaries of the Hawaiian Homes Commission Act of 1920 to file claims to recover actual economic damages they believed they suffered from a breach of trust caused by an act or omission of an official of the State between August 21, 1959, when Hawaii became a state, and June 30, 1988. Claims were required to be filed no later than August 31, 1995. There were 4,327 claims filed by 2,753 individuals.

The process was a three-step process which (1) began with informal proceedings presided over by the Hawaiian Home Lands Trust Individual Claims Review Panel (the Panel) to provide the State Legislature with non-binding findings and advisory opinions for each claim; (2) provided for the State Legislature's review and consideration of the Panel's findings and advisory opinions, and appropriations of funds to pay the actual economic damages the State Legislature deemed appropriate by October 1, 1999; and (3) allowed claimants to bring de novo civil actions by December 31, 1999 if they were not satisfied with the Panel's findings and advisory opinions, or the State Legislature's response to the Panel's recommendations.

Legislation to allow the Panel and the State Legislature until September 30, 2000 to act on all claims, and postpone the deadline for unsatisfied claimants to file suit until December 31, 2000, was adopted by the State Legislature, but vetoed by the Governor in the 1999 regular session, and the Panel sunseted on December 31, 1999. As of September 30, 1999, claims from 1,376 claimants had not been reviewed by the Panel, and all but the claims of two claimants had not been acted upon by the State Legislature. In 1997, the State Legislature declared it to be its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it.

(Continued)

On September 30, 1999, three claimants filed a suit for declaratory and injunctive relief in the U.S. District Court to secure an injunction prohibiting the enforcement of the notice and suit filing deadlines specified in HRS Chapter 674. *Kalima et al. v. Cayetano*, Civil No. 99-00671HG/LEK. A motion for preliminary injunction was heard on November 15, 1999 and denied as moot on September 28, 2000. By stipulation filed on November 13, 2000, the action was dismissed without prejudice.

On December 29, 1999, the same three claimants filed a class motion lawsuit in the First Circuit Court for declaratory and injunctive relief and for general, special and punitive damages for breach of trust or fiduciary duty under HRS Chapters 674 and 673, violation of the due process, equal protection and native rights clauses of the State Constitution, and breach of contract under HRS Chapter 661. *Kalima et al; v. State of Hawaii et al.*, Civil No. 99-4771-12VSM (First Circuit Court) ("*Kalima I*"). Five other claimants filed similar individual claims actions for themselves on or before December 31, 1999. *Aguiar v. State of Hawaii, et al.*, Civil No. 99-612 (Third Circuit Court); *Silva v. State of Hawaii, et al.*, Civil No. 99-4775-12 (First Circuit Court); *Wilhelm v. State of Hawaii, et al.*, Civil No. 99-4774-12 (First Circuit Court); *Williamson v. State of Hawaii, et al.*, Civil No. 99-4773-12 (First Circuit Court); *Hanohano v. State of Hawaii, et al.*, Civil No. 99-4775-12 (First Circuit Court). The Plaintiffs in these other actions have stipulated to stay all proceedings in their actions pending the resolution of all questions of law in *Kalima I* that are common to the questions of law presented in their suits.

On March 30, 2000, the three named-plantiffs in *Kalima I* filed a second class action lawsuit in the First Circuit Court for declaratory and injunctive relief, and for damages under HRS Chapter 673, for the Panel's and the State Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674. *Kalima et al.; v. State of Hawaii, et al*; Civil No. 00-1-1041-03 (First Circuit Court) ("*Kalima II*"). All proceedings in this action were stayed by stipulation, pending the resolution of those questions of law in *Kalima I* that are common to both *Kalima I* and *Kalima II*.

On August 30, 2000, the First Circuit Court entered an order in *Kalima I* granting Plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denying Defendants' motion for judgment on the pleadings. Essentially, the First Circuit Court rejected Defendants' sovereign immunity, lack of subject matter jurisdiction, and no-cause of action defenses, and ruled that the Plaintiffs and those similarly situated to them (by an order filed on August 29, 2000, a class was so certified for purposes of Count I) could pursue their claims for damages and other relief under HRS Chapters 674 and 661.

The First Circuit Court granted Defendants' motion for leave to file an interlocutory appeal from the August 30, 2000 order in *Kalima I*, and on September 29, 2000, a notice of appeal to the Hawaii Supreme Court and Intermediate Court of Appeals was filed. An order staying all proceedings in *Kalima I* pending the Hawaii Supreme Court's disposition of the appeal was also entered on November 28, 2000. On September 20, 2001, after the appeal was fully briefed and scheduled for oral argument, the Hawaii Supreme Court entered an order dismissing the appeal for want of appellate jurisdiction. In an order filed on October 3, 2001, the Hawaii Supreme Court denied Defendants' motion for reconsideration. Defendants have since filed a motion to certify the August 30, 2000 order as a final order so that the questions of law the First Circuit Court decided in issuing the order can again be appealed to the Hawaii Supreme Court for appellate review before a trial is held. No trial date has been set in either *Kalima I* or any of the other individual claims cases.

(Continued)

At the present time, the State is not able to estimate with any reasonable certainty the magnitude of the potential liability related to these individual claims cases. Accordingly, no estimate of loss has been made in the accompanying general purpose financial statements. However, an ultimate decision against the State could have a material adverse effect on the financial position of the State.

(22) Risk Management

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, establishes accounting and financial reporting standards for risk financing and insurance related activities of state governmental entities and requires the recordation of a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. Previously, those losses were recorded on a pay-as-you-go basis. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks are as follows:

(a) Property Insurance

The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible is $250,000 per occurrence. The deductible for windstorm coverage is 2% of loss subject to a $250,000 per occurrence minimum and a $3,000,000 per occurrence maximum. The limit of loss per occurrence is $100,000,000. This policy includes earthquake and flood coverage whose limit of loss per occurrence is $50,000,000 with a deductible of 2% of loss subject to the $250,000 deductible.

The State also has $10,000,000 insurance policies for faithful performance of duty and depositors forgery with $250,000 deductibles. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

(b) General Liability (including Torts)

Claims under $10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a $2,000,000 deductible per occurrence. The annual aggregate per occurrence is $50,000,000.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

(c) Medical Insurance

The State's community hospitals included in the HHSC are insured by a comprehensive hospital professional liability policy. The policy covers losses from personal injury, professional liability, patient property damage and employee benefits. This policy covers losses up to a limit of $30,000,000 per occurrence and in the aggregate.

(d) Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses.

(e) Reserve for Losses

A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2001 and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the General Long-Term Obligations Account Group as those losses will be liquidated with future expendable resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The following table represents changes in the amount of the estimated losses and the loss adjustment costs at June 30 (amounts expressed in thousands):

	2001	2000
Unpaid losses and loss adjustment costs at the beginning of the fiscal year	$ 192,000	$ 213,000
Incurred losses and loss adjustment costs:		
Provision for insured events of current fiscal year	29,000	18,000
Decrease in provision for insured events of prior fiscal years	(57,000)	(14,000)
Total incurred losses and loss adjustment costs	(28,000)	4,000
Payments:		
Losses and loss adjustment costs attributable to insured events of current fiscal year	4,000	2,000
Losses and loss adjustment costs attributable to insured events of prior fiscal years	24,000	23,000
Total payments	28,000	25,000
Unpaid losses and loss adjustment costs at the end of the fiscal year	$ 136,000	$ 192,000

(23) Subsequent Event

The tourism industry is considered to be one of the primary components of the State's economy. The effects of the terrorist attack on September 11, 2001 have negatively impacted the State's tourism industry in the short-term. A prolonged downturn in Hawaii's tourism industry may have a significant impact on the State's financial position.

(THIS PAGE INTENTIONALLY LEFT BLANK)

COMBINING, INDIVIDUAL FUND AND

ACCOUNT GROUP FINANCIAL STATEMENTS

AND SCHEDULES

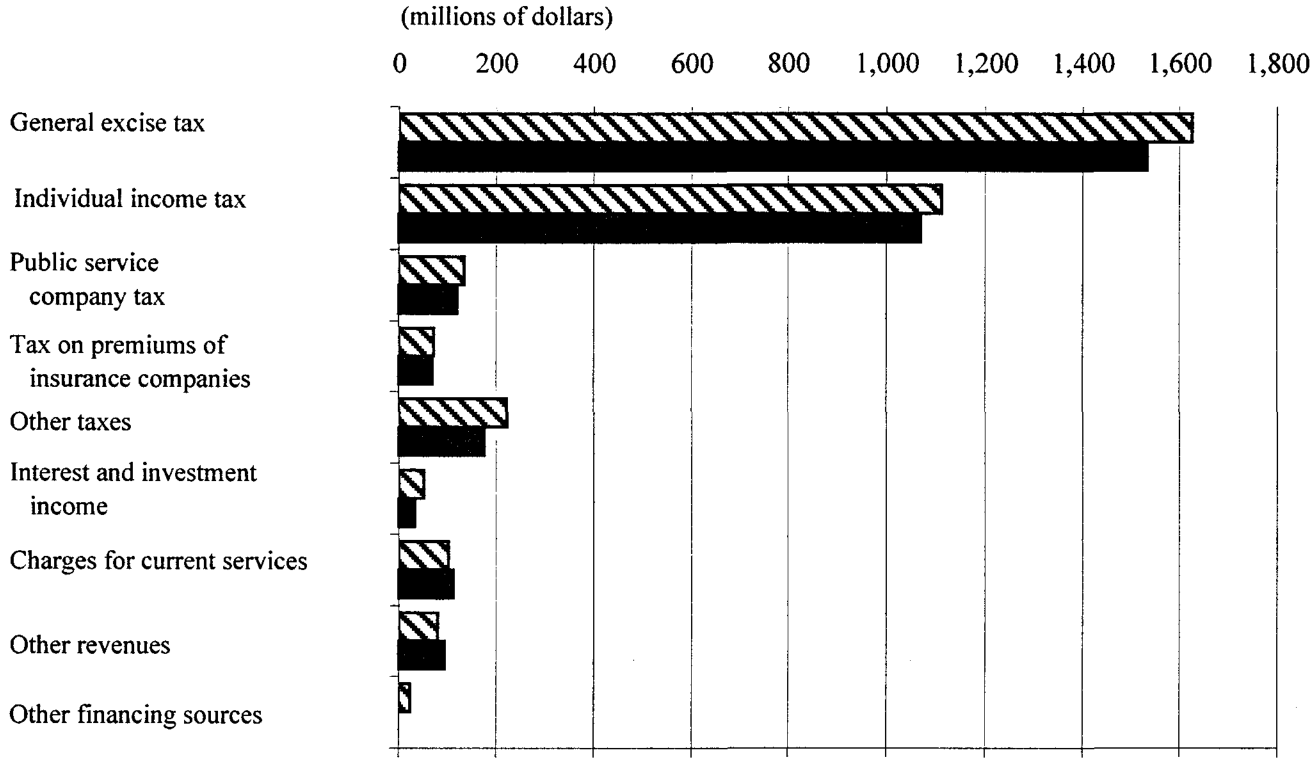
(THIS PAGE INTENTIONALLY LEFT BLANK)

GENERAL FUND

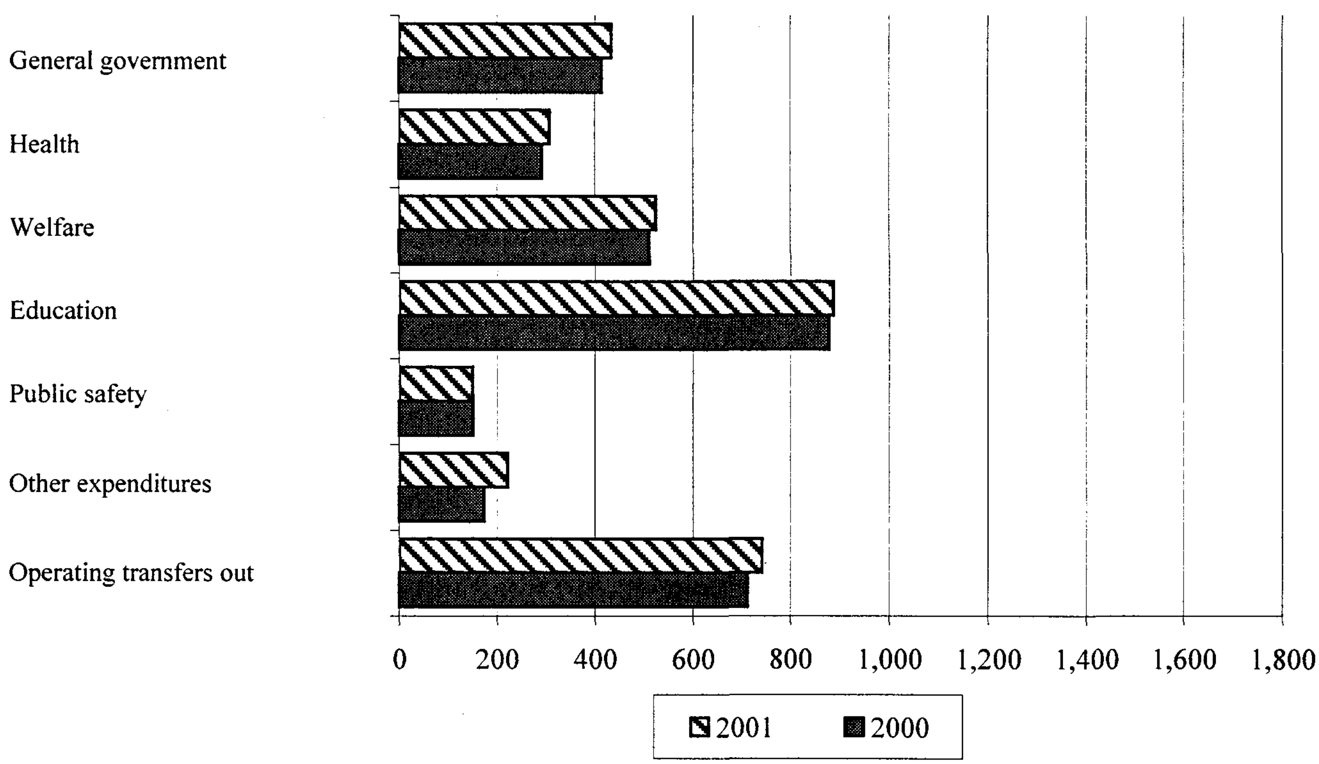
The General Fund is the general operating fund of the State. It is used to account for all financial resources except those required to be accounted for in another fund. Expenditures include those for general government, public safety, conservation of natural resources, health, welfare, education, culture and recreation, urban redevelopment and housing, and economic development and assistance.

GENERAL FUND

Revenues and Other Financing Sources



Expenditures and Other Financing Uses



STATE OF HAWAII

Exhibit B-1

General Fund
Balance Sheet

June 30, 2001
(Amounts in thousands)

ASSETS				
Cash and short-term investments			$	217,775
Receivables:				
Taxes	$	276,900		
Notes		484		
Other		161		
Total receivables				277,545
Due from other funds:				
Special Revenue Funds		25,600		
Capital Projects Fund		181,208		
Trust and Agency Funds		70		
Total due from other funds				206,878
Due from Component Units				6,000
Investments				265,025
Total Assets			$	973,223
LIABILITIES AND FUND BALANCE				
Liabilities:				
Vouchers payable			$	82,226
Other accrued liabilities				53,518
Due to other funds:				
Debt Service Fund	$	110		
Enterprise Funds		6,200		
Total due to other funds				6,310
Due to Component Units				9,828
Deferred revenue				16,000
Total Liabilities				167,882
Fund Balance:				
Reserved for continuing appropriations:				
Unencumbered allotments		8,667		
Unliquidated encumbrances		195,549		
		204,216		
Reserved for receivables and advances		536		
Unreserved:				
Designated for future expenditures		74,235		
Undesignated		526,354		
Total Fund Balance				805,341
Total Liabilities and Fund Balance			$	973,223

See accompanying independent auditors' report.

General Fund
Statement of Revenues, Expenditures and Changes in Unreserved Fund Balance

For the Fiscal Year Ended June 30, 2001

(Amounts in thousands)

Revenues:		
Taxes:		
General excise tax		$ 1,626,486
Net income tax:		
Corporations		73,857
Individuals		1,113,239
Inheritance and estate tax		17,541
Liquor permits and tax		37,783
Public service company tax		134,583
Tobacco tax		55,074
Tax on premiums of insurance companies		72,113
Franchise tax (banks and other financing institutions)		(2,794)
Transient accommodations tax		33,849
Other taxes, primarily conveyances tax		7,174
Total taxes		3,168,905
Non-taxes:		
Interest and investment income	$ 52,925	
Charges for current services	102,367	
Intergovernmental	4,106	
Rentals	12,793	
Fines, forfeitures and penalties	17,447	
Licenses and fees	955	
Revenues from private sources	1,746	
Accrued interest on general obligation bonds sold	390	
Other	42,266	
Total non-taxes		234,995
Total Revenues		3,403,900
Other Financing Source – capital leases		23,137
Total Revenues and Other Financing Source		3,427,037

(Continued)

STATE OF HAWAII

General Fund
Statement of Revenues, Expenditures and Changes in Unreserved Fund Balance (Cont'd)

For the Fiscal Year Ended June 30, 2001
(Amounts in thousands)

Expenditures:		
Current:		
General government		$ 432,668
Public safety		149,875
Conservation of natural resources		23,028
Health		307,262
Welfare		523,820
Lower education		882,755
Other education		3,771
Culture and recreation		32,437
Urban redevelopment and housing		1,295
Economic development and assistance		42,429
Social security and pension contributions		90,765
Other		8,115
Intergovernmental		25
Capital outlay		23,497
Total Expenditures		2,521,742
Other Financing Uses – operating transfers out to:		
Special Revenue Funds	$ 17,714	
Debt Service Fund	307,326	
Trust and Agency Funds	150	
Component Units	417,340	
Total Other Financing Uses		742,530
Total Expenditures and Other Financing Uses		3,264,272
Excess of Revenues and Other Financing Source over Expenditures and Other Financing Uses		162,765
Other Changes in Unreserved Fund Balance:		
Add:		
Continuing appropriations, July 1, 2000	149,090	
Deduct:		
Continuing appropriations, June 30, 2001	(204,216)	
Total Other Changes in Unreserved Fund Balance		(55,126)
Excess of Revenues and Other Financing Source over Expenditures, Other Financing Uses and Other Changes in Unreserved Fund Balance		107,639
Unreserved Fund Balance, July 1, 2000		466,005
Residual equity transfer in from Special Revenue Funds		24,805
Residual equity transfer in from Capital Projects Fund		2,140
Unreserved Fund Balance, June 30, 2001		$ 600,589

See accompanying independent auditors' report.

General Fund
Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis)

For the Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Revenues:			
Taxes:			
General excise tax	$ 1,627,483	$ 1,624,586	$ (2,897)
Net income tax:			
Corporations	74,018	60,793	(13,225)
Individuals	1,149,240	1,104,603	(44,637)
Inheritance and estate tax	26,280	17,541	(8,739)
Liquor permits and tax	39,592	37,783	(1,809)
Public service company tax	118,770	134,583	15,813
Tobacco tax	43,798	55,074	11,276
Tax on premiums of insurance companies	71,659	72,113	454
Franchise tax (banks and other financial institutions)	6,794	(2,794)	(9,588)
Transient accommodations tax	31,483	30,649	(834)
Other taxes, primarily conveyances tax	7,384	7,062	(322)
Total taxes	3,196,501	3,141,993	(54,508)
Non-taxes:			
Interest and investment income	32,001	52,925	20,924
Charges for current services	112,669	108,994	(3,675)
Intergovernmental	3,876	4,106	230
Rentals	5,323	12,793	7,470
Fines, forfeitures and penalties	18,713	17,447	(1,266)
Licenses and fees	661	955	294
Revenues from private sources	7,080	1,746	(5,334)
Accrued interest on general obligation bonds sold	700	390	(310)
Debt service reimbursements	58,565	31,016	(27,549)
Other	68,247	69,213	966
Total non-taxes	307,835	299,585	(8,250)
Total Revenues	3,504,336	3,441,578	(62,758)

(Continued)

General Fund
Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) (Cont'd)

For the Fiscal Year Ended June 30, 2001
(Amounts in thousands)

	Budget	Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
Expenditures:			
Current:			
General government	$ 608,309	$ 586,651	$ 21,658
Public safety	154,317	151,859	2,458
Conservation of natural resources	28,177	25,165	3,012
Health	371,438	363,478	7,960
Hospitals	13,000	13,000	—
Welfare	519,231	511,238	7,993
Lower education	1,186,635	1,111,434	75,201
Higher education	409,034	397,502	11,532
Other education	3,752	3,691	61
Culture and recreation	33,424	32,864	560
Urban redevelopment and housing	1,360	1,304	56
Economic development and assistance	45,380	44,785	595
Housing	7,567	7,379	188
Social security and pension contributions	42,366	40,580	1,786
Other	9,086	8,981	105
Intergovernmental	25	25	—
Total Expenditures	3,433,101	3,299,936	133,165
Excess of Revenues over Expenditures	$ 71,235	$ 141,642	$ 70,407

See accompanying independent auditors' report.

General Fund
Supplementary Schedule of Unreserved – Undesignated Fund Balance – Budgetary (Cash) Basis to GAAP Basis

For the Fiscal Year Ended June 30, 2001
(Amounts in thousands)

Revenues	$ 3,441,578
Expenditures	3,252,938
Excess of Revenues over Expenditures	188,640
Other Changes in Unreserved – Undesignated Fund Balance:	
Add:	
Continuing appropriations, July 1, 2000	196,877
Deduct:	
Continuing appropriations, June 30, 2001	308,521
	(111,644)
Excess of Revenues over Expenditures and Other Changes in Unreserved – Undesignated Fund Balance	76,996
Unreserved – Undesignated Fund Balance, July 1, 2000, on a Budgetary (Cash) Basis	272,104
Unreserved – Undesignated Fund Balance, June 30, 2001, on a Budgetary (Cash) Basis	349,100
Adjustments from Budgetary (Cash) Basis to GAAP Basis:	
Accrued revenues	304,273
Accrued expenditures	(96,319)
Tax refund liability	(30,700)
Unreserved – Undesignated Fund Balance, June 30, 2001, on a GAAP Basis	$ 526,354

See accompanying independent auditors' report.

APPENDIX C

EXTRACT FROM THE CONSTITUTION OF THE STATE OF HAWAII

ARTICLE VII

TAXATION AND FINANCE

LAPSING OF APPROPRIATIONS

Section 11. All appropriations for which the source is general obligation bond funds or general funds shall be for specified periods. No such appropriation shall be made for a period exceeding three years; provided that appropriations from the state educational facilities improvement special fund may be made for periods exceeding three years to allow for construction or acquisition of public school facilities. Any such appropriation or any portion of any such appropriation that is unencumbered at the close of the fiscal period for which the appropriation is made shall lapse; provided that no appropriation for which the source is general obligation bond funds nor any portion of any such appropriation shall lapse if the legislature determines that the appropriation or any portion of the appropriation is necessary to qualify for federal aid financing and reimbursement. Where general obligation bonds have been authorized for an appropriation, the amount of the bond authorization shall be reduced in an amount equal to the amount lapsed.

DEFINITIONS; ISSUANCE OF INDEBTEDNESS

Section 12. For the purposes of this article:

1. The term "bonds" shall include bonds, notes and other instruments of indebtedness.

2. The term "general obligation bonds" means all bonds for the payment of the principal and interest of which the full faith and credit of the State or a political subdivision are pledged and, unless otherwise indicated, includes reimbursable general obligation bonds.

3. The term "net revenues" or "net user tax receipts" means the revenues or receipts derived from:

a. A public undertaking, improvement or system remaining after the costs of operation, maintenance and repair of the public undertaking, improvement or system, and the required payments of the principal of and interest on all revenue bonds issued therefor, have been made; or

b. Any payments or return on security under a loan program or a loan thereunder, after the costs of operation and administration of the loan program, and the required payments of the principal of and interest on all revenue bonds issued therefor, have been made.

4. The term "person" means an individual, firm, partnership, corporation, association, cooperative or other legal entity, governmental body or agency, board, bureau or other instrumentality thereof, or any combination of the foregoing.

5. The term "rates, rentals and charges" means all revenues and other moneys derived from the operation or lease of a public undertaking, improvement or system, or derived from any payments or return on security under a loan program or a loan thereunder; provided that insurance premium payments, assessments and surcharges, shall constitute rates, rentals and charges of a state property insurance program.

6. The term "reimbursable general obligation bonds" means general obligation bonds issued for a public undertaking, improvement or system from which revenues, or user taxes, or a combination of both, may be derived for the payment of the principal and interest as reimbursement to the general fund and for which

reimbursement is required by law, and, in the case of general obligation bonds issued by the State for a political subdivision, general obligation bonds for which the payment of the principal and interest as reimbursement to the general fund is required by law to be made from the revenue of the political subdivision.

7. The term "revenue bonds" means all bonds payable from the revenues, or user taxes, or any combination of both, of a public undertaking, improvement, system or loan program and any loan made thereunder and secured as may be provided by law, including a loan program to provide loans to a state property insurance program providing hurricane insurance coverage to the general public.

[Subsections 8 and 9 are omitted.]

The legislature, by a majority vote of the members to which each house is entitled, shall authorize the issuance of all general obligation bonds, bonds issued under special improvement statutes and revenue bonds issued by or on behalf of the State and shall prescribe by general law the manner and procedure for such issuance. The legislature by general law shall authorize political subdivisions to issue general obligation bonds, bonds issued under special improvement statutes and revenue bonds and shall prescribe the manner and procedure for such issuance. All such bonds issued by or on behalf of a political subdivision shall be authorized by the governing body of such political subdivision.

Special purpose revenue bonds shall only be authorized or issued to finance facilities of or for, or to loan the proceeds of such bonds to assist:

1. Manufacturing, processing or industrial enterprises;

2. Utilities serving the general public;

3. Health care facilities provided to the general public by not-for-profit corporations;

4. Early childhood education and care facilities provided to the general public by not-for-profit corporations; or

5. Low and moderate income government housing programs, each of which is hereinafter referred to in this paragraph as a special purpose entity.

The legislature, by a two-thirds vote of the members to which each house is entitled, may enact enabling legislation for the issuance of special purpose revenue bonds separately for each special purpose entity, and, by a two-thirds vote of the members to which each house is entitled and by separate legislative bill, may authorize the State to issue special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the legislature. The legislature may enact enabling legislation to authorize political subdivisions to issue special purpose revenue bonds. If so authorized, a political subdivision by a two-thirds vote of the members to which its governing body is entitled and by separate ordinance may authorize the issuance of special purpose revenue bonds for each single project or multi-project program of each special purpose entity; provided that the issuance of such special purpose revenue bonds is found to be in the public interest by the governing body of the political subdivision. No special purpose revenue bonds shall be secured directly or indirectly by the general credit of the issuer or by any revenues or taxes of the issuer other than receipts derived from payments by a person under contract or from any security for such contract or special purpose revenue bonds and no moneys other than such receipts shall be applied to the payment thereof. The governor shall provide the legislature in November of each year with a report on the cumulative amount of all special purpose revenue bonds authorized and issued, and such other information as may be necessary.

DEBT LIMIT; EXCLUSIONS

Section 13. General obligation bonds may be issued by the State; provided that such bonds at the time of issuance would not cause the total amount of principal and interest payable in the current or any future fiscal year, whichever is higher, on such bonds and on all outstanding general obligation bonds to exceed: a sum equal to twenty percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance until June 30, 1982; and thereafter, a sum equal to eighteen and one-half percent of the average of the general fund revenues of the State in the three fiscal years immediately preceding such issuance. Effective July 1, 1980, the legislature shall include a declaration of findings in every general law authorizing the issuance of general obligation bonds that the total amount of principal and interest, estimated for such bonds and for all bonds authorized and unissued and calculated for all bonds issued and outstanding, will not cause the debt limit to be exceeded at the time of issuance. Any bonds issued by or on behalf of the State may exceed the debt limit if an emergency condition is declared to exist by the governor and concurred to by a two-thirds vote of the members to which each house of the legislature is entitled. For the purpose of this paragraph, general fund revenues of the State shall not include moneys received as grants from the federal government and receipts in reimbursement of any reimbursable general obligation bonds which are excluded as permitted by this section.

A sure equal to fifteen percent of the total of the assessed values for tax rate purposes of real property in each political subdivision, as determined by the last tax assessment rolls pursuant to law, is established as the limit of the funded debt of such political subdivision that is outstanding and unpaid at any time.

All general obligation bonds for a term exceeding two years shall be in serial form maturing in substantially equal installments of principal, or maturing in substantially equal installments of both principal and interest. The first installment of principal of general obligation bonds and of reimbursable general obligation bonds shall mature not later than five years from the date of issue of such series. The last installment on general obligation bonds shall mature not later than twenty-five years from the date of such issue and the last installment on general obligation bonds sold to the federal government, on reimbursable general obligation bonds and on bonds constituting instruments of indebtedness under which the State or a political subdivision incurs a contingent liability as a guarantor shall mature not later than thirty-five years from the date of such issue. The interest and principal payments of general obligation bonds shall be a first charge on the general fund of the State or political subdivision, as the case may be.

In determining the power of the State to issue general obligation bonds or the funded debt of any political subdivision under section 12, the following shall be excluded:

1. Bonds that have matured, or that mature in the then current fiscal year, or that have been irrevocably called for redemption and the redemption date has occurred or will occur in the then fiscal year, or for the full payment of which moneys or securities have been irrevocably set aside.

2. Revenue bonds, if the issuer thereof is obligated by law to impose rates, rentals and charges for the use and services of the public undertaking, improvement or system or the benefits of a loan program or a loan thereunder or to impose a user tax, or to impose a combination of rates, rentals and charges and user tax, as the case may be, sufficient to pay the cost of operation, maintenance and repair, if any, of the public undertaking, improvement or system or the cost of maintaining a loan program or a loan thereunder and the required payments of the principal of and interest on all revenue bonds issued for the public undertaking, improvement or system or loan program, and if the issuer is obligated to deposit such revenues or tax or a combination of both into a special fund and to apply the same to such payments in the amount necessary therefor.

3. Special purpose revenue bonds, if the issuer thereof is required by law to contract with a person obligating such person to make rental or other payments to the issuer in an amount at least sufficient to make the required payment of the principal of and interest on such special purpose revenue bonds.

4. Bonds issued under special improvement statutes when the only security for such bonds is the properties benefited or improved or the assessments thereon.

5. General obligation bonds issued for assessable improvements, but only to the extent that reimbursements to the general fund for the principal and interest on such bonds are in fact made from assessment collections available therefor.

6. Reimbursable general obligation bonds issued for a public undertaking, improvement or system but only to the extent that reimbursements to the general fund are in fact made from the net revenue, or net user tax receipts, or combination of both, as determined for the immediately preceding fiscal year.

7. Reimbursable general obligation bonds issued by the State for any political subdivision, whether issued before or after the effective date of this section, but only for as long as reimbursement by the political subdivision to the State for the payment of principal and interest on such bonds is required by law; provided that in the case of bonds issued after the effective date of this section, the consent of the governing body of the political subdivision has first been obtained; and provided further that during the period that such bonds are excluded by the State, the principal amount then outstanding shall be included within the funded debt of such political subdivision.

8. Bonds constituting instruments of indebtedness under which the State or any political subdivision incurs a contingent liability as a guarantor, but only to the extent the principal amount of such bonds does not exceed seven percent of the principal amount of outstanding general obligation bonds not otherwise excluded under this section; provided that the State or political subdivision shall establish and maintain a reserve in an amount in reasonable proportion to the outstanding loans guaranteed by the State or political subdivision as provided by law.

9. Bonds issued by or on behalf of the State or by any political subdivision to meet appropriations for any fiscal period in anticipation of the collection of revenues for such period or to meet casual deficits or failures of revenue, if required to be paid within one year, and bonds issued by or on behalf of the State to suppress insurrection, to repel invasion, to defend the State in war or to meet emergencies caused by disaster or act of God.

The total outstanding indebtedness of the State or funded debt of any political subdivision and the exclusions there from permitted by this section shall be made annually and certified by law or as provided by law. For the purposes of section 12 and this section, amounts received from on-street parking may be considered and treated as revenues of a parking undertaking.

Nothing in section 12 or in this section shall prevent the refunding of any bond at any time.

[The remainder of this page left blank]

APPENDIX D

GENERAL OBLIGATION FUNDED DEBT OF THE STATE OF HAWAII

as of February 1, 2002

ISSUED AND OUTSTANDING

General obligation bonds and general obligation refunding bonds of the State of Hawaii issued and outstanding

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
ugust 1, 1972	$ 5,125,000, Series X, callable	4.000%	August 1, 2002	@	240,000.00	
		4.000%	August 1, 2003	@	255,000.00	
		4.000%	August 1, 2004	@	270,000.00	
		4.000%	August 1, 2005	@	285,000.00	
		4.000%	August 1, 2006	@	300,000.00	
		4.000%	August 1, 2007	@	315,000.00	$1,665,000.00
ecember 6, 1988	$ 65,000,954.43, Series BL, non-callable (compound interest bonds)	7.481%	December 1, 2002	@	4,065,151.32	
		7.581%	December 1, 2003	@	4,059,208.35	
		7.631%	December 1, 2004	@	4,065,429.07	
		7.681%	December 1, 2005	@	4,059,625.69	
		7.681%	December 1, 2006	@	4,065,206.24	
		7.681%	December 1, 2007	@	4,060,531.65	
		7.681%	December 1, 2008	@	4,065,039.05	28,440,191.37
ovember 28, 1989	$ 80,005,159.73, Series BQ, callable (certain maturities bear compound interest, non-callable)	7.100%	December 1, 2005	@	$ 4,444,706.84	
		7.100%	December 1, 2006	@	4,444,323.52	
		7.150%	December 1, 2007	@	4,444,776.00	
		7.150%	December 1, 2008	@	4,444,432.49	
		7.150%	December 1, 2009	@	4,444,540.00	22,222,778.85
arch 1, 1992	$100,000,000, Series BW, noncallable	5.900%	March 1, 2002	@	$ 5,555,000.00	
		6.100%	March 1, 2004	@	5,555,000.00	
		6.200%	March 1, 2005	@	5,555,000.00	
		6.300%	March 1, 2006	@	5,555,000.00	
		6.400%	March 1, 2007 - 2010	@	5,555,000.00	
		6.375%	March 1, 2011	@	5,555,000.00	
		6.250%	March 1, 2012	@	5,555,000.00	55,550,000.00
arch 1, 1992	$ 30,690,000, Series BX, noncallable (refunding)	5.900%	March 1, 2002	@	$ 3,410,000.00	$3,410,000.00
:tober 1, 1992	$200,000,000 Series BZ, noncallable	5.600%	October 1, 2003	@	12,500,000.00	
		5.700%	October 1, 2004	@	12,500,000.00	
		5.800%	October 1, 2005	@	12,500,000.00	
		5.900%	October 1, 2006	@	12,500,000.00	
		6.000%	October 1, 2007 - 2012	@	12,500,000.00	$125,000,000.00
nuary 1, 1993	$ 90,000,000 Series CA, noncallable	5.375%	January 1, 2003	@	5,000,000.00	
		5.500%	January 1, 2004 - 2006	@	5,000,000.00	
		5.750%	January 1, 2007 - 2008	@	5,000,000.00	
		6.000%	January 1, 2009	@	5,000,000.00	
		5.750%	January 1, 2010 - 2011	@	5,000,000.00	
		5.500%	January 1, 2012	@	5,000,000.00	
		8.000%	January 1, 2013	@	5,000,000.00	55,000,000.00

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
January 1, 1993	$107,845,000 Series CB, noncallable (refunding)	5.375%	January 1, 2003	@	8,295,000.00	
		5.500%	January 1, 2004 - 2006	@	8,295,000.00	
		5.750%	January 1, 2007 - 2008	@	8,295,000.00	49,770,000.00
February 1, 1993	$334,860,000 Series CC, callable (refunding)	5.000%	February 1, 2003 - 2005	@	23,920,000.00	
		5.125%	February 1, 2006 - 2009	@	23,915,000.00	167,420,000.00
February 1, 1993	$137,935,000 Series CD, noncallable (refunding)	5.000%	February 1, 2003	@	17,240,000.00	17,240,000.00
June 1, 1993	$130,245,000 Series CE, callable	5.200%	June 1, 2004	@	7,235,000.00	
		5.250%	June 1, 2005	@	7,235,000.00	14,470,000.00
July 1, 1993	$157,735,000 Series CF, noncallable (refunding)	4.600%	July 1, 2002	@	$17,525,000.00	17,525,000.00
July 1, 1993	$ 21,500,000 Series CG, callable (refunding)	4.600%	July 1, 2002	@	$ 1,220,000.00	
		4.700%	July 1, 2003	@	1,280,000.00	
		4.800%	July 1, 2004	@	1,340,000.00	
		4.900%	July 1, 2005	@	1,405,000.00	
		5.000%	July 1, 2006	@	1,475,000.00	6,720,000.00
November 1, 1993	$250,000,000, Series CH, noncallable	4.200%	November 1, 2002	@	13,890,000.00	
		4.300%	November 1, 2003	@	13,890,000.00	
		4.400%	November 1, 2004	@	13,890,000.00	
		6.000%	November 1, 2005 - 2009	@	13,890,000.00	
		6.000%	November 1, 2010	@	13,885,000.00	
		4.750%	November 1, 2011 - 2013	@	13,885,000.00	$166,660,000.00
November 1, 1993	$316,915,000, Series CI, noncallable (refunding)	4.200%	November 1, 2002	@	21,130,000.00	
		4.300%	November 1, 2003	@	21,130,000.00	
		4.400%	November 1, 2004	@	21,125,000.00	
		4.500%	November 1, 2005	@	21,125,000.00	
		4.600%	November 1, 2006	@	21,125,000.00	
		4.700%	November 1, 2007	@	21,125,000.00	
		4.750%	November 1, 2008 - 2009	@	21,125,000.00	
		4.900%	November 1, 2010	@	21,125,000.00	$190,135,000.00
January 1, 1995	$268,000,000, Series CJ, callable	5.700%	January 1, 2003	@	14,890,000.00	
		5.750%	January 1, 2004	@	14,890,000.00	
		5.800%	January 1, 2005	@	14,890,000.00	44,670,000.00
September 1, 1995	$100,000,000, Series CK, callable	6.000%	September 1, 2003 - 2004	@	$ 5,555,000.00	
		5.000%	September 1, 2005 - 2006	@	5,555,000.00	22,220,000.00
March 1, 1996	$100,000,000, Series CL, callable	5.000%	March 1, 2002 - 2003	@	$ 5,555,000.00	
		4.900%	March 1, 2004	@	5,555,000.00	
		5.000%	March 1, 2005	@	5,555,000.00	
		5.100%	March 1, 2006	@	5,555,000.00	
		6.000%	March 1, 2007 - 2011	@	5,555,000.00	
		5.250%	March 1, 2013 - 2015	@	5,555,000.00	72,215,000.00
December 1, 1996	$150,000,000, Series CM, noncallable	5.500%	December 1, 2003 - 2004	@	8,335,000.00	
		6.000%	December 1, 2005 - 2010	@	8,335,000.00	
		6.000%	December 1, 2011 - 2012	@	8,330,000.00	
		6.500%	December 1, 2013 - 2016	@	8,330,333.00	116,660,000.00

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due		Outstanding Principal
larch 1, 1997	$350,000,000, Series CN, callable	6.250%	March 1, 2002	@ $13,660,000.00	
		6.250%	March 1, 2003	@ 14,515,000.00	
		6.250%	March 1, 2004	@ 15,420,000.00	
		6.250%	March 1, 2005	@ 16,385,000.00	
		6.250%	March 1, 2006	@ 17,410,000.00	
		6.250%	March 1, 2007	@ 18,500,000.00	
		6.250%	March 1, 2008	@ 19,655,000.00	
		6.000%	March 1, 2009	@ 20,885,000.00	
		5.250%	March 1, 2010	@ 22,135,000.00	
		5.250%	March 1, 2011	@ 23,300,000.00	
		5.250%	March 1, 2012	@ 24,520,000.00	
		5.250%	March 1, 2013	@ 25,810,000.00	
		5.500%	March 1, 2014	@ 27,165,000.00	
		5.250%	March 1, 2015	@ 28,660,000.00	
		5.250%	March 1, 2017	@ 31,820,000.00	$319,840,000.00
larch 1, 1997	$231,755,000, Series CO, noncallable (refunding)	6.000%	March 1, 2002	@ 7,890,000.00	
		4.750%	September 1, 2002	@ 8,125,000.00	
		4.800%	March 1, 2003	@ 8,320,000.00	
		6.000%	September 1, 2003	@ 8,520,000.00	
		5.000%	March 1, 2004	@ 8,775,000.00	
		6.000%	September 1, 2004	@ 8,995,000.00	
		6.000%	March 1, 2005	@ 9,265,000.00	
		6.000%	September 1, 2005	@ 9,545,000.00	
		6.000%	March 1, 2006	@ 9,830,000.00	
		6.000%	September 1, 2006	@ 10,125,000.00	
		6.000%	March 1, 2007	@ 10,425,000.00	
		6.000%	September 1, 2007	@ 10,740,000.00	
		6.000%	March 1, 2008	@ 11,060,000.00	
		6.000%	September 1, 2008	@ 11,395,000.00	
		6.000%	March 1, 2009	@ 11,735,000.00	
		6.000%	September 1, 2009	@ 12,090,000.00	
		6.000%	March 1, 2010	@ 12,450,000.00	
		6.000%	September 1, 2010	@ 12,825,000.00	
		6.000%	March 1, 2011	@ 13,210,000.00	$195,320,000.00
ctober 1, 1997	$200,000,000, Series CP, callable	5.000%	October 1, 2002	@ 7,640,000.00	
		5.000%	October 1, 2003	@ 8,035,000.00	
		5.000%	October 1, 2004	@ 8,445,000.00	
		5.000%	October 1, 2005	@ 8,880,000.00	
		5.500%	October 1, 2006	@ 9,355,000.00	
		5.500%	October 1, 2007	@ 9,885,000.00	
		5.500%	October 1, 2008	@ 10,445,000.00	
		5.500%	October 1, 2009	@ 11,035,000.00	
		5.500%	October 1, 2010	@ 11,660,000.00	
		5.000%	October 1, 2011	@ 12,290,000.00	
		5.000%	October 1, 2012	@ 12,915,000.00	
		5.000%	October 1, 2013	@ 13,580,000.00	
		5.000%	October 1, 2014	@ 14,275,000.00	
		5.000%	October 1, 2015	@ 15,010,000.00	
		5.000%	October 1, 2016	@ 15,780,000.00	
		5.000%	October 1, 2017	@ 16,585,000.00	185,815,000.00
ctober 1, 1997	$78,815,000, Series CQ, callable (refunding)	5.000%	October 1, 2002	@ 11,750,000.00	
		4.250%	October 1, 2003	@ 1,000,000.00	
		5.000%	October 1, 2003	@ 11,345,000.00	
		5.000%	October 1, 2004	@ 12,975,000.00	$37,070,000.00
pril 1, 1998	$300,000,000, Series CR, callable	6.000%	April 1, 2003	@ $12,185,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		5.500%	April 1, 2004	@	12,920,000.00	
		5.500%	April 1, 2005	@	13,630,000.00	
		5.500%	April 1, 2006	@	14,380,000.00	
		5.500%	April 1, 2007	@	15,170,000.00	
		5.750%	April 1, 2008	@	16,005,000.00	
		5.750%	April 1, 2009	@	16,925,000.00	
		5.250%	April 1, 2010	@	17,900,000.00	
		5.250%	April 1, 2011	@	18,835,000.00	
		5.250%	April 1, 2012	@	19,825,000.00	
		5.250%	April 1, 2013	@	20,865,000.00	
		5.000%	April 1, 2014	@	21,965,000.00	
		5.000%	April 1, 2015	@	23,060,000.00	
		5.000%	April 1, 2016	@	24,215,000.00	
		5.000%	April 1, 2017	@	25,425,000.00	
		4.750%	April 1, 2018	@	26,695,000.00	$300,000,000.00
April 1, 1998	$336,620,000, Series CS, noncallable (refunding)	5.250%	April 1, 2003	@	$41,075,000.00	
		5.250%	April 1, 2004	@	43,235,000.00	
		5.250%	April 1, 2005	@	45,505,000.00	
		5.250%	April 1, 2006	@	47,895,000.00	
		5.000%	April 1, 2007	@	50,405,000.00	
		5.000%	April 1, 2008	@	52,930,000.00	
		5.000%	April 1, 2009	@	55,575,000.00	$336,620,000.00
September 15, 1999	$300,000,000, Series CT, callable	5.250%	September 1, 2003	@	$11,060,000.00	
		4.500%	September 1, 2004	@	11,615,000.00	
		5.250%	September 1, 2005	@	12,195,000.00	
		5.500%	September 1, 2006	@	12,870,000.00	
		5.250%	September 1, 2007	@	13,580,000.00	
		5.250%	September 1, 2008	@	14,310,000.00	
		5.250%	September 1, 2009	@	15,080,000.00	
		5.750%	September 1, 2010	@	15,935,000.00	
		5.750%	September 1, 2011	@	16,880,000.00	
		5.625%	September 1, 2012	@	17,865,000.00	
		5.700%	September 1, 2013	@	18,910,000.00	
		5.750%	September 1, 2014	@	20,025,000.00	
		5.800%	September 1, 2015	@	21,215,000.00	$201,540,000.00
October 15, 2000	$150,000,000, Series CU, callable	4.600%	October 1, 2004	@	$ 5,545,000.00	
		4.600%	October 1, 2005	@	5,810,000.00	
		4.625%	October 1, 2006	@	6,080,000.00	
		5.750%	October 1, 2007	@	4,500,000.00	
		4.700%	October 1, 2007	@	1,895,000.00	
		5.750%	October 1, 2008	@	4,565,000.00	
		4.750%	October 1, 2008	@	2,190,000.00	
		5.750%	October 1, 2009	@	6,110,000.00	
		4.875%	October 1, 2009	@	1,025,000.00	
		5.750%	October 1, 2010	@	6,980,000.00	
		4.900%	October 1, 2010	@	575,000.00	
		5.750%	October 1, 2011	@	7,170,000.00	
		5.000%	October 1, 2011	@	825,000.00	
		5.750%	October 1, 2012	@	5,985,000.00	
		5.100%	October 1, 2012	@	2,470,000.00	
		5.875%	October 1, 2013	@	8,150,000.00	
		5.200%	October 1, 2013	@	800,000.00	
		5.875%	October 1, 2014	@	8,520,000.00	
		5.250%	October 1, 2014	@	965,000.00	
		5.875%	October 1, 2015	@	8,575,000.00	
		5.300%	October 1, 2015	@	1,480,000.00	

Date of Issue	Original Principal and Description	Rate of Interest	Outstanding Maturity Dates and Amount Due			Outstanding Principal
		5.875%	October 1, 2016	@	10,660,000.00	
		5.500%	October 1, 2017	@	11,280,000.00	
		5.550%	October 1, 2018	@	11,920,000.00	
		5.600%	October 1, 2019	@	12,605,000.00	
		5.600%	October 1, 2020	@	6,320,000.00	
		5.250%	October 1, 2020	@	7,000,000.00	$150,000,000.00
.ugust 1, 2001	$300,000,000, Series CV, callable	5.000%	August 1 2005	@	11,110,000.00	
		5.000%	August 1 2006	@	11,680,000.00	
		5.500%	August 1 2007	@	12,310,000.00	
		5.500%	August 1 2008	@	13,005,000.00	
		5.500%	August 1 2009	@	13,745,000.00	
		5.500%	August 1 2010	@	14,520,000.00	
		5.500%	August 1 2011	@	15,340,000.00	
		5.375%	August 1 2012	@	16,200,000.00	
		5.375%	August 1 2013	@	17,095,000.00	
		5.375%	August 1 2014	@	18,035,000.00	
		5.375%	August 1 2015	@	19,035,000.00	
		4.800%	August 1 2016	@	705,000.00	
		5.375%	August 1 2016	@	19,375,000.00	
		5.125%	August 1 2017	@	21,160,000.00	
		5.375%	August 1 2018	@	22,305,000.00	
		4.900%	August 1 2019	@	2,385,000.00	
		5.375%	August 1 2019	@	21,145,000.00	
		5.000%	August 1 2020	@	24,775,000.00	
		5.000%	August 1 2021	@	5,590,000.00	
		5.250%	August 1 2021	@	20,485,000.00	300,000,000.00
ugust 1, 2001	$156,750,000, Series CW, callable (refunding)	3.400%	August 1 2005	@	3,740,000.00	
		5.000%	August 1 2005	@	7,375,000.00	
		3.600%	August 1 2006	@	11,575,000.00	
		3.600%	August 1 2007	@	7,345,000.00	
		3.800%	August 1 2007	@	4,705,000.00	
		5.500%	August 1 2008	@	6,505,000.00	
		4.000%	August 1 2008	@	6,110,000.00	
		5.500%	August 1 2009	@	2,275,000.00	
		4.100%	August 1 2009	@	10,990,000.00	
		5.500%	August 1 2010	@	2,420,000.00	
		4.200%	August 1 2010	@	11,560,000.00	
		4.300%	August 1 2011	@	3,365,000.00	
		5.500%	August 1 2011	@	11,370,000.00	
		4.400%	August 1 2012	@	1,045,000.00	
		5.375%	August 1 2012	@	14,490,000.00	
		4.500%	August 1 2013	@	1,680,000.00	
		5.375%	August 1 2013	@	14,700,000.00	
		4.600%	August 1 2014	@	225,000.00	
		5.375%	August 1 2014	@	17,050,000.00	
		4.700%	August 1 2015	@	990,000.00	
		5.375%	August 1 2015	@	17,235,000.00	156,750,000.00

'otal of all State of Hawaii general obligation bonds and general obligation refunding bonds issued and outstanding $3,359,947,970.22

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE
State of Hawaii

Dated ________, 2002

$250,000,000 **General Obligation Bonds** **of 2002, Series CX**	**$319,290,000** **General Obligation Refunding** **Bonds of 2002, Series CY**

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the State of Hawaii (the "State") in connection with the issuance of its $250,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2002, Series CX (the "Series CX Bonds") and its $319,290,000 aggregate principal amount of General Obligation Refunding Bonds of 2002, Series CY (the "Series CY Bonds," and together with the Series CX Bonds, the "Bonds"). The Bonds are being issued pursuant to the authority of the Constitution and laws of the State, including, in particular, certain acts of the Legislature of the State, as implemented by that certain Certificate of the Director of Finance of the State of Hawaii providing for the issuance of the Bonds (the "Bond Certificate"). Pursuant to Section 403 of the Bond Certificate, the State covenants and agrees as follows:

Section 1. *Purpose of Disclosure Certificate.* This Disclosure Certificate is being executed and delivered by the State for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. *Definitions.* In addition to the definitions set forth in the Bond Certificate, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Annual Report*" shall mean any Annual Report provided by the State pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Beneficial Owner*" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) is treated as the owner of any Bonds for federal income tax purposes.

"*Dissemination Agent*" shall mean the Director of Finance or any successor Dissemination Agent designated in writing by the State and which has filed with the State a written acceptance of such designation.

"*Listed Events*" shall mean any of the events listed in subsection 5(a) of this Disclosure Certificate.

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth at http//www.sec.gov/info/municipal/nrmsir.htm.

"*Participating Underwriter*" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Repository*" shall mean each National Repository and each State Repository.

"*Rule*" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"*State*" shall mean the State of Hawaii.

"*State Repository*" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. *Provision of Annual Reports.* (a) The State shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the State's fiscal year (presently June 30), commencing with the report for the Fiscal Year ending June 30, 2002, to each Repository an Annual report which is consistent with the requirements of Section 4 of this disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section d of this Disclosure Certificate, provided that the audited financial statements of the State may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the State's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under subsection 5(c).

(b) Not later than 15 Business Days prior to said date, the State shall provide the Annual Report to the Dissemination Agent (if other than the State). If the State is unable to provide to the Repositories an Annual Report by the date required in subsection (a) above, the State shall send a notice to each Repository, the Municipal Securities Rulemaking Board and the State Repository, if any, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) (if the Dissemination Agent is other than the State), file a report with the State certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. *Contents of Annual Reports.* The State's Annual Report shall contain or include by reference information of the type included in Appendix B to the final Official Statement (the "Official Statement") dated February 13, 2002, relating to the Bonds.

The audited financial statements of the State for the prior fiscal year shall be prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the State's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

Any of such information may be included by specific reference to other documents, including official statements of debt issues of the State or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The State shall clearly identify each such other document so included by reference.

Section 5. *Reporting of Significant Events.* (a) Pursuant to the provisions of this Section 5, the State shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;

2. non-payment related defaults;

3. modifications to rights of Bondholders;

4. bond calls;

5. defeasances;

6. rating changes;

7. adverse tax opinions or events affecting the tax-exempt status of the Bonds;

8. unscheduled draws on the debt service reserves reflecting financial difficulties;

9. unscheduled draws on the credit enhancements reflecting financial difficulties;

10. Substitution of the credit or liquidity providers or their failure to perform; or

11. release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the State obtains knowledge of the occurrence of a Listed Event, the State shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the State determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the State shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Repository. Notwithstanding the foregoing, notice of Listed Events described in Subsections (a)(4) and (5) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Bond Certificate.

Section 6. *Termination of Reporting Obligation.* The State's obligations under this Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the State shall give notice of such termination in the same manner as for a Listed Event under subsection 5(c).

Section 7. *Dissemination Agent.* The State may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the State pursuant to this Disclosure Certificate.

Section 8. *Amendment; Waiver.* Notwithstanding any other provision of this Disclosure Certificate, the State may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of subsection 3(a), Section 4 or subsection 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of ail obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Bond Certificate for amendments to the Bond Certificate with the consent of Holders or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or Waiver of a provision of this Disclosure Certificate, the State shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the State. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be ;given in the same manner as for a Listed Event under subsection 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. *Additional Information.* Nothing in this Disclosure Certificate shall be deemed to prevent the State from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the State chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the State shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. *Default.* In the event of a failure of the State to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the State to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Bond Certificate with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the State to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. *Beneficiaries.* This Disclosure Certificate shall inure solely to the benefit of the State, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds and shall create no rights in any other person or entity.

Section 12. *Governing Law.* This Disclosure Certificate shall be construed and interpreted in accordance with the laws of the State of Hawaii, and any suits and actions arising out of this Disclosure Certificate shall be instituted in a court of competent jurisdiction in the State of Hawaii; *provided, however*, that to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

STATE OF HAWAII

By:____________________________________

NEAL MIYAHIRA
Director of Finance of
the State of Hawaii

EXHIBIT A

FORM OF

NOTICE OF REPOSITORIES OF

FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	State of Hawaii
Name of Bond Issues:	State of Hawaii General Obligation Bonds of 2002, Series CX and General Obligation Refunding Bonds of 2002, Series CY
Date of Issuance:	__________, 2002

NOTICE IS HEREBY GIVEN that the State has not provided an Annual Report with respect to the above- named Bonds as required by its Continuing Disclosure Certificate dated ___________, 2002. [The State anticipates that the Annual Report will be filed by .]

Dates:

STATE OF HAWAII

By: ___________________________________

Title: __________________________________

(THIS PAGE INTENTIONALLY LEFT BLANK)

APPENDIX F

FORM OF OPINION OF BOND COUNSEL

[Closing Date], 2002

State of Hawaii
Honolulu, Hawaii

Re: State of Hawaii General Obligation Bonds of 2002, Series CX
and General Obligation Refunding Bonds of 2002, Series CY
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the State of Hawaii (the "State") of $250,000,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2002, Series CX, and $319,290,000 aggregate principal amount of State of Hawaii General Obligation Bonds of 2002, Series CY (collectively, the "Bonds"), pursuant to the provisions of Part I of Chapter 39, Hawaii Revised Statutes, a Certificate of the Director of Finance of the State dated February 13, 2002 (the "Certificate"), and various acts of the Legislature of the State identified in the Certificate.

In such connection, we have reviewed the Certificate, the Tax Certificate of the State, dated the date hereof (the "Tax Certificate"), certificates and opinions of the Attorney General and certificates of other officers of the State, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Certificate, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, the defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the State. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Certificate and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Bonds, the Certificate and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against the State of Hawaii. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid general obligations of the State.

2. The Certificate has been duly executed and delivered by the Director of Finance and constitutes the valid obligation of the State.

3. Interest and principal payments on the Bonds are a first charge on the general fund of the State to the punctual payment of which the full faith and credit of the State are pledged.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that interest on the Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income. The Bonds and the income therefrom are exempt from all taxation by the State of Hawaii or any county or other political subdivision thereof, except inheritance, transfer and estate taxes; provided that no opinion is expressed with respect to the franchise tax imposed on banks and other financial institutions. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX G

SPECIMEN OF THE BOND INSURANCE POLICY

(THIS PAGE INTENTIONALLY LEFT BLANK)

FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

By ________________________

FINANCIAL SECURITY ASSURANCE INC.

By ________________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022
(212) 826-0100

FINANCIAL SECURITY ASSURANCE®

ENDORSEMENT NO. 1 TO MUNICIPAL BOND INSURANCE POLICY (California Insurance Guaranty Association)

ISSUER: Policy No.:

BONDS: Effective Date:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language. the terms of this Endorsement supersede the Policy language.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By: ______________________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022 (212) 826-0100

Form 560NY (CA 1/91)

(THIS PAGE INTENTIONALLY LEFT BLANK)